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Supplementary material: proposed statement on auditing standards: overall objectives of the independent auditor and the conduct of an audit in accordance with generally accepted auditing standards; Exposure draft (American Institute of Certified Public Accountants), 2008, September 26

American Institute of Certified Public Accountants. Auditing Standards Board

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American Institute of Certified Public Accountants. Auditing Standards Board, "Supplementary material: proposed statement on auditing standards: overall objectives of the independent auditor and the conduct of an audit in accordance with generally accepted auditing standards; Exposure draft (American Institute of Certified Public Accountants), 2008, September 26" (2008). *Statements of Position*. 684.

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SUPPLEMENTARY MATERIAL

Proposed Statement on Auditing Standards *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*

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Detailed Differences Between International Standard on Auditing (ISA) 200 (Revised and Redrafted), <i>Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing</i> , and the Proposed SAS	31

Proposed Statement on Auditing Standards *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*

MAPPING DOCUMENT

The proposed Statement on Auditing Standards (SAS) will supersede SAS No. 1, *Codification of Auditing Standards and Procedures*, section 110, “Responsibilities and Functions of the Independent Auditor,” as amended; section 210, “Training and Proficiency of the Independent Auditor,” as amended; section 220, “Independence;” and section 230, “Due Professional Care in the Performance of Work,” as amended; SAS No. 95, *Generally Accepted Auditing Standards*, as amended; and SAS No. 102, *Defining Professional Responsibilities in Statements on Auditing Standards* (AICPA, *Professional Standards*, vol. 1, AU sec. 110, 201, 210, 220, 230, 120, and 150).

This mapping document demonstrates how the extant SASs to be superseded are either reflected in the proposed SAS or are contained in the AICPA Code of Professional Conduct (ET sections in AICPA *Professional Standards*); Statement of Quality Control Standards (SQCS) No. 7, *A Firm’s System of Quality Control* (AICPA, *Professional Standards*, vol. 2, QC sec. 10); or in other SASs (and in other International Standards on Auditing (ISAs) to which the other SASs will be converged). **Highlighted material** identifies material that is proposed to be eliminated as a result of redrafting. An explanation of the proposed deletion of highlighted material and other comments are provided, where appropriate.

AU Section (AICPA, <i>Professional Standards</i>, vol. 1)	Proposed SAS Paragraph Reference	Other Reference	Comments
AU Section 110, <i>Responsibilities and Functions of the Independent Auditor</i>			
.01 The objective of the ordinary audit of financial statements by the independent auditor is the expression of an opinion on the fairness with which they present, in all material respects, financial position, results of operations, and its cash flows in conformity	11a		

Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards – Detailed Differences

AU Section (AICPA, <i>Professional Standards</i>, vol. 1)	Proposed SAS Paragraph Reference	Other Reference	Comments
with generally accepted accounting principles.			
The auditor's report is the medium through which he expresses his opinion or, if circumstances require, disclaims an opinion.	11b 12		
In either case, he states whether his audit has been made in accordance with generally accepted auditing standards.		AU 508.08d <i>ED ISA 700, par. 26</i>	
These standards require him to state whether, in his opinion, the financial statements are presented in conformity with generally accepted accounting principles and to identify those circumstances in which such principles have not been consistently observed in the preparation of the financial statements of the current period in relation to those of the preceding period.		AU 508.16 <i>ED ISA 705, par. A4</i>	
.02 The auditor has a responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud.	11a		

Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards – Detailed Differences

AU Section (AICPA, <i>Professional Standards</i>, vol. 1)	Proposed SAS Paragraph Reference	Other Reference	Comments
Because of the nature of audit evidence and the characteristics of fraud, the auditor is able to obtain reasonable, but not absolute, assurance that material misstatements are detected.	5		
The auditor has no responsibility to plan and perform the audit to obtain reasonable assurance that misstatements, whether caused by errors or fraud, that are not material to the financial statements are detected.	6		
.03 The financial statements are management's responsibility.	4		
The auditor's responsibility is to express an opinion on the financial statements.	11 <i>b</i>		
Management is responsible for adopting sound accounting policies and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements.	A2 <i>a</i> A3		

Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards – Detailed Differences

AU Section (AICPA, <i>Professional Standards</i>, vol. 1)	Proposed SAS Paragraph Reference	Other Reference	Comments
The entity's transactions and the related assets, liabilities, and equity are within the direct knowledge and control of management.	A2b		
The auditor's knowledge of these matters and internal control is limited to that acquired through the audit.			Highlighted text was deleted as it was determined not to be necessary.
Thus, the fair presentation of financial statements in conformity with generally accepted accounting principles is an implicit and integral part of management's responsibility.	A2a		
The independent auditor may make suggestions about the form or content of the financial statements or draft them, in whole or in part, based on information from management during the performance of the audit. However, the auditor's responsibility for the financial statements he or she has audited is confined to the expression of his or her opinion on them.	A4		Not in ISA 200—added to proposed SAS.
.04 The professional qualifications required of the independent auditor are those of a person with the education and experience to	A27		

Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards – Detailed Differences

AU Section (AICPA, <i>Professional Standards</i>, vol. 1)	Proposed SAS Paragraph Reference	Other Reference	Comments
practice as such.			
They do not include those of a person trained for or qualified to engage in another profession or occupation. For example, the independent auditor, in observing the taking of a physical inventory, does not purport to act as an appraiser, a valuer, or an expert in materials. Similarly, although the independent auditor is informed in a general manner about matters of commercial law, he does not purport to act in the capacity of a lawyer and may appropriately rely upon the advice of attorneys in all matters of law.	A50		
.05 In the observance of generally accepted auditing standards, the independent auditor must exercise his judgment in determining which auditing procedures are necessary in the circumstances to afford a reasonable basis for his opinion. His judgment is required to be the informed judgment of a qualified professional person.	17 A26–A27		
.06–.09 Superseded			
.10 The independent auditor also has a responsibility to his profession, the responsibility to comply with the standards accepted by his fellow practitioners. In recognition of the	14 A15–A20.		

Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards – Detailed Differences

AU Section (AICPA, <i>Professional Standards</i>, vol. 1)	Proposed SAS Paragraph Reference	Other Reference	Comments
importance of such compliance, the American Institute of Certified Public Accountants has adopted, as part of its Code of Professional Conduct, rules which support the standards and provide a basis for their enforcement.			
AU Section 120, <i>Defining Professional Requirements in Statements on Auditing Standards</i>			
<p>.01 This section sets forth the meaning of certain terms used in Statements on Auditing Standards (SASs) issued by the Auditing Standards Board in describing the professional requirements imposed on auditors.</p> <p>.02 SASs contain professional requirements together with related guidance in the form of explanatory material. Auditors have a responsibility to consider the entire text of a SAS in carrying out their work on an engagement and in understanding and applying the professional requirements of the relevant SASs.</p>	19 A62–A69		
.03 Not every paragraph of a SAS carries a professional requirement that the auditor is expected to fulfill. Rather, the professional requirements are communicated by the language and the meaning of the words used in the SASs.	A62–A66		

Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards – Detailed Differences

AU Section (AICPA, <i>Professional Standards</i> , vol. 1)	Proposed SAS Paragraph Reference	Other Reference	Comments
<p>.04 SASs use two categories of professional requirements, identified by specific terms, to describe the degree of responsibility they impose on auditors, as follows:</p> <ul style="list-style-type: none"> • <i>Unconditional requirements.</i> The auditor is required to comply with an unconditional requirement in all cases in which the circumstances exist to which the unconditional requirement applies. SASs use the words <i>must</i> or <i>is required</i> to indicate an unconditional requirement. • <i>Presumptively mandatory requirements.</i> The auditor is also required to comply with a presumptively mandatory requirement in all cases in which the circumstances exist to which the presumptively mandatory requirement applies; however, in rare circumstances, the auditor may depart from a presumptively mandatory requirement provided the auditor documents his or her justification for the departure and how the alternative procedures performed in the circumstances were sufficient to achieve the objectives of the presumptively mandatory requirement. SASs use the word <i>should</i> to indicate a presumptively mandatory requirement. 	23 A77		Note that “is required” has not been included in the proposed SAS and will not be used to create an unconditional requirement. Phrase led to confusion as to nature of requirement.
If a SAS provides that a procedure or action is one that the auditor “should consider,” the consideration of the procedure or action is	A77		

Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards – Detailed Differences

AU Section (AICPA, <i>Professional Standards</i>, vol. 1)	Proposed SAS Paragraph Reference	Other Reference	Comments
presumptively required, whereas carrying out the procedure or action is not.			
The professional requirements of a SAS are to be understood and applied in the context of the explanatory material that provides guidance for their application.	A62–A66		
Section 339, <i>Audit Documentation</i> , establishes standards and provides guidance on the form, content, and extent of audit documentation.	24 A78 A84		
<p>.05 Explanatory material is defined as the text within a SAS (excluding any related appendixes or interpretations ^[see AU 150]) that may:</p> <ul style="list-style-type: none"> • Provide further explanation and guidance on the professional requirements; or • Identify and describe other procedures or actions relating to the activities of the auditor. 	A62–A66		
<p>.06 Explanatory material that provides further explanation and guidance on the professional requirements is intended to be descriptive rather than imperative. That is, it explains the objective of the professional requirements (where not otherwise self-evident); it explains why the auditor might consider or employ</p>	A62–A66		

Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards – Detailed Differences

AU Section (AICPA, <i>Professional Standards</i> , vol. 1)	Proposed SAS Paragraph Reference	Other Reference	Comments
particular procedures, depending on the circumstances; and it provides additional information for the auditor to consider in exercising professional judgment in performing the engagement.			
.07 Explanatory material that identifies and describes other procedures or actions relating to the activities of the auditor is not intended to impose a professional requirement for the auditor to perform the suggested procedures or actions. Rather, these procedures or actions require the auditor’s attention and understanding; how and whether the auditor carries out such procedures or actions in the engagement depends on the exercise of professional judgment in the circumstances consistent with the objective of the standard. The words <i>may</i> , <i>might</i> , and <i>could</i> are used to describe these actions and procedures.	A63		
.08 The provisions of this section are effective upon issuance. ^{fn 2} ^{fn 2} The specific terms used to define professional requirements in this section are not intended to apply to interpretive publications issued under the authority of the ASB, since interpretive publications are not auditing standards. ([See AU 150.05.]) It is the ASB’s intention to make conforming changes to the interpretive publications over the next several years to remove any language that would imply a professional requirement where none exists. It is the ASB’s intention that such language would only be used in the standards sections of the SASs.			Footnote not needed in proposed SAS.

Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards – Detailed Differences

AU Section (AICPA, <i>Professional Standards</i>, vol. 1)	Proposed SAS Paragraph Reference	Other Reference	Comments
AU Section 150, <i>Generally Accepted Auditing Standards</i>			
.01 An independent auditor plans, conducts, and reports the results of an audit in accordance with generally accepted auditing standards.	18		
Auditing standards provide a measure of audit quality and the objectives to be achieved in an audit. Auditing procedures differ from auditing standards. Auditing procedures are acts that the auditor performs during the course of an audit to comply with auditing standards.			Highlighted text is application material not considered necessary for inclusion in proposed SAS.
.02 The general, field work, and reporting standards (the 10 standards) approved and adopted by the membership of the AICPA, as amended by the AICPA Auditing Standards Board (ASB), are as follows:			Overview statement not used in clarity format.
<i>General Standards</i> 1. The auditor must have adequate technical training and proficiency to perform the audit.	<i>Proposed Preface to Codification of Statements on Auditing</i>	SQCS 7, par. 37, 49, 51 ET 56.02	The qualifications of the auditor are required by AICPA Code of Professional Conduct and by state regulation.

Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards – Detailed Differences

AU Section (AICPA, <i>Professional Standards</i>, vol. 1)	Proposed SAS Paragraph Reference	Other Reference	Comments
	Standards <i>Principle No. 3</i>		
2. The auditor must maintain independence in mental attitude in all matters relating to the audit.	<i>Proposed Preface Principle No. 3</i> 14	ET 55	
3. The auditor must exercise due professional care in the performance of the audit and the preparation of the report.	<i>Proposed Preface Principle No. 3</i> 14	ET 56	
<i>Standards of Field Work</i> 1. The auditor must adequately plan the work and must properly supervise any assistants.	<i>Proposed Preface Principle No. 5</i>	AU 311 proposed AU 161 <i>ISA 300</i> <i>ISA 220</i>	

Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards – Detailed Differences

AU Section (AICPA, <i>Professional Standards</i>, vol. 1)	Proposed SAS Paragraph Reference	Other Reference	Comments
2. The auditor must obtain a sufficient understanding of the entity and its environment, including its internal control, to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures.	<i>Proposed Preface Principle No. 5</i>	AU 314 <i>ISA 315</i>	
3. The auditor must obtain sufficient appropriate audit evidence by performing audit procedures to afford a reasonable basis for an opinion regarding the financial statements under audit.	<i>Proposed Preface Principle Nos. 4 and 5</i> 17	AU 326	
<p><i>Standards of Reporting</i></p> <p>1. The auditor must state in the auditor's report whether the financial statements are presented in accordance with generally accepted accounting principles (GAAP).^{fn 3}</p> <p>^{fn 3} When an auditor reports on financial statements prepared in accordance with a comprehensive basis of accounting other than</p>	<i>Proposed Preface Principle No. 7</i>	AU 410 AU 508 <i>ISA 700, par. 32</i>	

Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards – Detailed Differences

AU Section (AICPA, <i>Professional Standards</i>, vol. 1)	Proposed SAS Paragraph Reference	Other Reference	Comments
generally accepted accounting principles, the first standard of reporting is satisfied by stating in the auditor's report that the basis of presentation is a comprehensive basis of accounting other than generally accepted accounting principles and by expressing an opinion (or disclaiming an opinion) on whether the financial statements are presented in conformity with the comprehensive basis of accounting used.			
2. The auditor must identify in the auditor's report those circumstances in which such principles have not been consistently observed in the current period in relation to the preceding period.		AU 420 <i>ISA 705</i>	ISA 705 includes this as a material misstatement.
3. When the auditor determines that informative disclosures are not reasonably adequate, the auditor must so state in the auditor's report.		AU 431 <i>ISA 705, par. 10</i>	
4. The auditor must either express an opinion regarding the financial statements, taken as a whole, or state that an opinion cannot be expressed, in the auditor's report.		AU 508 <i>ISA 700</i>	
When the auditor cannot express an overall opinion, the auditor should state the reasons therefor in the auditor's report.		AU 508	

Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards – Detailed Differences

AU Section (AICPA, <i>Professional Standards</i>, vol. 1)	Proposed SAS Paragraph Reference	Other Reference	Comments
In all cases where an auditor's name is associated with financial statements, the auditor should clearly indicate the character of the auditor's work, if any, and the degree of responsibility the auditor is taking, in the auditor's report.		AU 508	
.03 Rule 202, <i>Compliance With Standards</i> , of the AICPA Code of Professional Conduct [ET section 202.01], requires an AICPA member who performs an audit (the auditor) to comply with standards promulgated by the ASB.	A56		
The ASB develops and issues standards in the form of Statements on Auditing Standards (SASs) through a due process that includes deliberation in meetings open to the public, public exposure of SASs, and a formal vote.	2		
The SASs are codified within the framework of the 10 standards.			Not applicable
.04 The nature of the 10 standards and the SASs requires the auditor to exercise professional judgment in applying them. Materiality and audit risk also underlie the application of the 10 standards and the SASs, particularly those related to field work	16 A26–A30		

Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards – Detailed Differences

AU Section (AICPA, <i>Professional Standards</i>, vol. 1)	Proposed SAS Paragraph Reference	Other Reference	Comments
and reporting.			
When, in rare circumstances, the auditor departs from a presumptively mandatory requirement, the auditor must document in the working papers his or her justification for the departure and how the alternative procedures performed in the circumstances were sufficient to achieve the objectives of the presumptively mandatory requirement.		AU 339	
Interpretive Publications .05 <i>Interpretive publications</i> consist of auditing Interpretations of the SASs, appendixes to the SASs, auditing guidance included in AICPA Audit and Accounting Guides, and AICPA auditing Statements of Position. Interpretive publications are not auditing standards. Interpretive publications are recommendations on the application of the SASs in specific circumstances, including engagements for entities in specialized industries. An interpretive publication is issued under the authority of the ASB after all ASB members have been provided an opportunity to consider and comment on whether the interpretive publication is consistent with the SASs.	25 A79		
.06 The auditor should be aware of and consider interpretive	25		

Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards – Detailed Differences

AU Section (AICPA, <i>Professional Standards</i>, vol. 1)	Proposed SAS Paragraph Reference	Other Reference	Comments
publications applicable to his or her audit. If the auditor does not apply the auditing guidance included in an applicable interpretive publication, the auditor should be prepared to explain how he or she complied with the SAS provisions addressed by such auditing guidance.	A79		
<p>Other Auditing Publications</p> <p>.07 <i>Other auditing publications</i> include AICPA auditing publications not referred to above; auditing articles in the <i>Journal of Accountancy</i> and other professional journals; auditing articles in the <i>AICPA CPA Letter</i>; continuing professional education programs and other instruction materials, textbooks, guide books, audit programs, and checklists; and other auditing publications from state CPA societies, other organizations, and individuals. Other auditing publications have no authoritative status; however, they may help the auditor understand and apply the SASs.</p>	26 A77		
<p>.08 If an auditor applies the auditing guidance included in an other auditing publication, he or she should be satisfied that, in his or her judgment, it is both relevant to the circumstances of the audit, and appropriate. In determining whether an other auditing publication is appropriate, the auditor may wish to consider the degree to which the publication is recognized as being helpful in</p>	26 A80		

Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards – Detailed Differences

AU Section (AICPA, <i>Professional Standards</i>, vol. 1)	Proposed SAS Paragraph Reference	Other Reference	Comments
understanding and applying the SASs and the degree to which the issuer or author is recognized as an authority in auditing matters. Other auditing publications published by the AICPA that have been reviewed by the AICPA Audit and Attest Standards staff are presumed to be appropriate.			
AU Section 201, <i>Nature of the General Standards</i>			
.01 The general standards are personal in nature and are concerned with the qualifications of the auditor and the quality of his work as distinct from those standards which relate to the performance of his field work and to his reporting. These personal, or general, standards apply alike to the areas of field work and reporting.		The qualifications of the auditor are required by AICPA Code of Professional Conduct and by state regulation.	
AU Section 210, <i>Training and Proficiency of the Independent Auditor</i>			
.01 The first general standard is: The auditor must have adequate technical training and proficiency to perform the audit.	<i>Proposed Preface Principle No. 3</i>	SQCS 7, par. 37, 49, 51 ET 56.02	The qualifications of the auditor are required by AICPA Code of Conduct and by state regulation.

Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards – Detailed Differences

AU Section (AICPA, <i>Professional Standards</i>, vol. 1)	Proposed SAS Paragraph Reference	Other Reference	Comments
.02 This standard recognizes that however capable a person may be in other fields, including business and finance, he cannot meet the requirements of the auditing standards without proper education and experience in the field of auditing.		SQCS 7, par. 45	
.03 In the performance of the audit which leads to an opinion, the independent auditor holds himself out as one who is proficient in accounting and auditing. The attainment of that proficiency begins with the auditor's formal education and extends into his subsequent experience. The independent auditor must undergo training adequate to meet the requirements of a professional. This training must be adequate in technical scope and should include a commensurate measure of general education.		ET 56	Not included in proposed SAS—restates requirement above.
The junior assistant, just entering upon an auditing career, must obtain his professional experience with the proper supervision and review of his work by a more experienced superior.		ET 201 AU 161 (as revised)	The qualifications of the auditor are required by AICPA Code of Professional Conduct and by state regulation.
The nature and extent of supervision and review must necessarily reflect wide variances in practice.			Not included—statement of fact, not

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AU Section (AICPA, <i>Professional Standards</i>, vol. 1)	Proposed SAS Paragraph Reference	Other Reference	Comments
			requirement.
The auditor charged with final responsibility for the engagement must exercise a seasoned judgment in the varying degrees of his supervision and review of the work done and judgment exercised by his subordinates, who in turn must meet the responsibility attaching to the varying gradations and functions of their work.		ET 201 AU 311 AU 161	
.04 The independent auditor's formal education and professional experience complement one another; each auditor exercising authority upon an engagement should weigh these attributes in determining the extent of his supervision of subordinates and review of their work. It should be recognized that the training of a professional man includes a continual awareness of developments taking place in business and in his profession. He must study, understand, and apply new pronouncements on accounting principles and auditing procedures as they are developed by authoritative bodies within the accounting profession.		SQCS 7	
.05 In the course of his day-to-day practice, the independent auditor encounters a wide range of judgment on the part of management, varying from true objective judgment to the occasional extreme of deliberate misstatement. He is retained to audit and report upon the financial statements of a business because, through his training and experience, he has become skilled in accounting and auditing and has acquired the ability to consider objectively and to exercise independent judgment with respect to the information recorded in books of account or			Not included in proposed SAS—not necessary.

Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards – Detailed Differences

AU Section (AICPA, <i>Professional Standards</i>, vol. 1)	Proposed SAS Paragraph Reference	Other Reference	Comments
otherwise disclosed by his audit.			
AU Section 220, <i>Independence</i>			
<p>.01 The second general standard is:</p> <p>The auditor must maintain independence in mental attitude in all matters relating to the audit.</p>	14	ET 101 SQCS 7 AU 161	
<p>.02 This standard requires that the auditor be independent; aside from being in public practice (as distinct from being in private practice), he must be without bias with respect to the client since otherwise he would lack that impartiality necessary for the dependability of his findings, however excellent his technical proficiency may be. However, independence does not imply the attitude of a prosecutor but rather a judicial impartiality that</p>	A17		

Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards – Detailed Differences

AU Section (AICPA, <i>Professional Standards</i> , vol. 1)	Proposed SAS Paragraph Reference	Other Reference	Comments
recognizes an obligation for fairness not only to management and owners of a business but also to creditors and those who may otherwise rely (in part, at least) upon the independent auditor's report, as in the case of prospective owners or creditors.			
<p>.03 It is of utmost importance to the profession that the general public maintain confidence in the independence of independent auditors. Public confidence would be impaired by evidence that independence was actually lacking, and it might also be impaired by the existence of circumstances which reasonable people might believe likely to influence independence. To <i>be</i> independent, the auditor must be intellectually honest; to be <i>recognized</i> as independent, he must be free from any obligation to or interest in the client, its management, or its owners. For example, an independent auditor auditing a company of which he was also a director might be intellectually honest, but it is unlikely that the public would accept him as independent since he would be in effect auditing decisions which he had a part in making. Likewise, an auditor with a substantial financial interest in a company might be unbiased in expressing his opinion on the financial statements of the company, but the public would be reluctant to believe that he was unbiased. Independent auditors should not only be independent in fact; they should avoid situations that may lead outsiders to doubt their independence.</p>		ET 55	

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AU Section (AICPA, <i>Professional Standards</i> , vol. 1)	Proposed SAS Paragraph Reference	Other Reference	Comments
<p>.04 The profession has established, through the AICPA's Code of Professional Conduct, precepts to guard against the <i>presumption</i> of loss of independence. "Presumption" is stressed because the possession of intrinsic independence is a matter of personal quality rather than of rules that formulate certain objective tests. Insofar as these precepts have been incorporated in the profession's code, they have the force of professional law for the independent auditor.</p>		ET	
<p>.05 The Securities and Exchange Commission (SEC) has also adopted requirements for independence of auditors who report on financial statements filed with it that differ from the AICPA requirements in certain respects.</p>			Not applicable
<p>.06 The independent auditor should administer his practice within the spirit of these precepts and rules if he is to achieve a proper degree of independence in the conduct of his work.</p>		SQCS 7	
<p>.07 To emphasize independence from management, many corporations follow the practice of having the independent auditor appointed by the board of directors or elected by the stockholders.</p>			Not necessary— guidance for clients

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AU Section (AICPA, <i>Professional Standards</i> , vol. 1)	Proposed SAS Paragraph Reference	Other Reference	Comments
AU Section 230, <i>Due Professional Care in the Performance of Work</i>			
<p>.01 The third general standard is:</p> <p>The auditor must exercise due professional care in the performance of the audit and the preparation of the report.</p>	14	ET 201	
<p>.02 This standard requires the independent auditor to plan and perform his or her work with due professional care. Due professional care imposes a responsibility upon each professional within an independent auditor's organization to observe the standards of field work and reporting.</p>	14 A18	ET 201	The responsibility to observe the fieldwork and reporting standards is imposed by the same authority that imposes the responsibility to follow the general standards.
<p>.03 <i>Cooley on Torts</i>, a legal treatise, describes the obligation for due care as follows:</p> <p>Every man who offers his services to another and is employed assumes the duty to exercise in the employment such skill as he possesses with reasonable care and diligence. In all these employments where peculiar skill is requisite, if one offers his services, he is understood as holding himself out to the public as</p>			This was written in 1932.

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AU Section (AICPA, <i>Professional Standards</i> , vol. 1)	Proposed SAS Paragraph Reference	Other Reference	Comments
possessing the degree of skill commonly possessed by others in the same employment, and if his pretensions are unfounded, he commits a species of fraud upon every man who employs him in reliance on his public profession. But no man, whether skilled or unskilled, undertakes that the task he assumes shall be performed successfully, and without fault or error; he undertakes for good faith and integrity, but not for infallibility, and he is liable to his employer for negligence, bad faith, or dishonesty, but not for losses consequent upon pure errors of judgment.			
.04 The matter of due professional care concerns what the independent auditor does and how well he or she does it. The quotation from <i>Cooley on Torts</i> provides a source from which an auditor's responsibility for conducting an audit with due professional care can be derived. The remainder of the section discusses the auditor's responsibility in the context of an audit.		ET 201	
.05 An auditor should possess "the degree of skill commonly possessed" by other auditors and should exercise it with "reasonable care and diligence" (that is, with due professional care).	15	ET 55 SQCS 7 AU 161	
.06 Auditors should be assigned to tasks and supervised commensurate with their level of knowledge, skill, and ability so		AU 311.07 AU 311.11	

Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards – Detailed Differences

AU Section (AICPA, <i>Professional Standards</i>, vol. 1)	Proposed SAS Paragraph Reference	Other Reference	Comments
that they can evaluate the audit evidence they are examining. The auditor with final responsibility for the engagement should know, at a minimum, the relevant professional accounting and auditing standards and should be knowledgeable about the client. The auditor with final responsibility is responsible for the assignment of tasks to, and supervision of, assistants.		SQCS 7 <i>ISA 220</i>	
Professional Skepticism .07 Due professional care requires the auditor to exercise <i>professional skepticism</i> . Professional skepticism is an attitude that includes a questioning mind and a critical assessment of audit evidence. The auditor uses the knowledge, skill, and ability called for by the profession of public accounting to diligently perform, in good faith and with integrity, the gathering and objective evaluation of evidence.	15 A21–A25		
.08 Gathering and objectively evaluating audit evidence requires the auditor to consider the competency and sufficiency of the evidence. Since evidence is gathered and evaluated throughout the audit, professional skepticism should be exercised throughout the audit process.	15, A21–A25		

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AU Section (AICPA, <i>Professional Standards</i>, vol. 1)	Proposed SAS Paragraph Reference	Other Reference	Comments
.09 The auditor neither assumes that management is dishonest nor assumes unquestioned honesty. In exercising professional skepticism, the auditor should not be satisfied with less than persuasive evidence because of a belief that management is honest.	A25		
Reasonable Assurance .10 While exercising due professional care, the auditor must plan and perform the audit to obtain sufficient appropriate audit evidence so that audit risk will be limited to a low level that is, in his or her professional judgment, appropriate for expressing an opinion on the financial statements.	17		
The high, but not absolute, level of assurance that is intended to be obtained by the auditor is expressed in the auditor's report as obtaining reasonable assurance about whether the financial statements are free of material misstatement (whether caused by error or fraud).	5		
Absolute assurance is not attainable because of the nature of audit evidence and the characteristics of fraud.	A48		

Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards – Detailed Differences

AU Section (AICPA, <i>Professional Standards</i>, vol. 1)	Proposed SAS Paragraph Reference	Other Reference	Comments
Therefore, an audit conducted in accordance with generally accepted auditing standards may not detect a material misstatement.	A55		
<p>.11 The independent auditor's objective is to obtain sufficient competent evidential matter to provide him or her with a reasonable basis for forming an opinion. The nature of most evidence derives, in part, from the concept of selective testing of the data being audited, which involves judgment regarding both the areas to be tested and the nature, timing, and extent of the tests to be performed. In addition, judgment is required in interpreting the results of audit testing and evaluating audit evidence. Even with good faith and integrity, mistakes and errors in judgment can be made. Furthermore, accounting presentations contain accounting estimates, the measurement of which is inherently uncertain and depends on the outcome of future events. The auditor exercises professional judgment in evaluating the reasonableness of accounting estimates based on information that could reasonably be expected to be available prior to the completion of field work. As a result of these factors, in the great majority of cases, the auditor has to rely on evidence that is persuasive rather than convincing.</p>	A31–A57		

Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards – Detailed Differences

AU Section (AICPA, <i>Professional Standards</i>, vol. 1)	Proposed SAS Paragraph Reference	Other Reference	Comments
<p>.12 Because of the characteristics of fraud, a properly planned and performed audit may not detect a material misstatement. Characteristics of fraud include (a) concealment through collusion among management, employees, or third parties; (b) withheld, misrepresented, or falsified documentation; and (c) the ability of management to override or instruct others to override what otherwise appears to be effective controls. For example, auditing procedures may be ineffective for detecting an intentional misstatement that is concealed through collusion among personnel within the entity and third parties or among management or employees of the entity. Collusion may cause the auditor who has properly performed the audit to conclude that evidence provided is persuasive when it is, in fact, false. In addition, an audit conducted in accordance with generally accepted auditing standards rarely involves authentication of documentation, nor are auditors trained as or expected to be experts in such authentication. Furthermore, an auditor may not discover the existence of a modification of documentation through a side agreement that management or a third party has not disclosed. Finally, management has the ability to directly or indirectly manipulate accounting records and present fraudulent financial information by overriding controls in unpredictable ways.</p>	A50	AU 316 ISA 240	

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AU Section (AICPA, <i>Professional Standards</i>, vol. 1)	Proposed SAS Paragraph Reference	Other Reference	Comments
<p>.13 Since the auditor's opinion on the financial statements is based on the concept of obtaining reasonable assurance, the auditor is not an insurer and his or her report does not constitute a guarantee. Therefore, the subsequent discovery that a material misstatement, whether from error or fraud, exists in the financial statements does not, in and of itself, evidence (a) failure to obtain reasonable assurance, (b) inadequate planning, performance, or judgment, (c) the absence of due professional care, or (d) a failure to comply with generally accepted auditing standards.</p>	A55		

Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards – Detailed Differences

DETAILED DIFFERENCES BETWEEN INTERNATIONAL STANDARD ON AUDITING (ISA) 200 (REVISED AND REDRAFTED), OVERALL OBJECTIVES OF THE INDEPENDENT AUDITOR AND THE CONDUCT OF AN AUDIT IN ACCORDANCE WITH INTERNATIONAL STANDARDS ON AUDITING, AND THE PROPOSED SAS

New material is shown in boldface italics; deleted material is shown in strikethrough.

ISA 200 (REVISED AND REDRAFTED)	PROPOSED SAS	Comments
OVERALL OBJECTIVES OF THE INDEPENDENT AUDITOR AND THE CONDUCT OF AN AUDIT IN ACCORDANCE WITH INTERNATIONAL STANDARDS ON AUDITING	OVERALL OBJECTIVES OF THE INDEPENDENT AUDITOR AND THE CONDUCT OF AN AUDIT IN ACCORDANCE WITH INTERNATIONAL GENERALLY ACCEPTED AUDITING STANDARDS	
Introduction	Introduction	
Scope of this ISA	Scope of this ISA <i>Statement on Auditing Standards</i>	
1. This International Standard on Auditing (ISA) establishes the independent auditor’s overall responsibilities when conducting an audit of financial statements in accordance with ISAs. Specifically, it sets out the overall objectives of the independent auditor, and explains the nature and scope of an audit designed to enable the independent auditor to meet those objectives. It also explains the scope, authority and structure of the ISAs, and includes requirements establishing the general responsibilities of the independent auditor applicable in all audits, including the obligation to comply with the ISAs. The independent auditor is referred to as “the auditor” hereafter.	1. This International Standard <i>Statement on Auditing Standards</i> (ISA SAS) establishes the independent auditor’s overall responsibilities when conducting an audit of financial statements in accordance with ISAs <i>generally accepted auditing standards (GAAS)</i> . Specifically, it sets out the overall objectives of the independent auditor, and explains the nature and scope of an audit designed to enable the independent auditor to meet those objectives. It also explains the scope, authority, and structure of the ISAs, GAAS; and includes requirements establishing the general responsibilities of the independent auditor applicable in all audits, including the obligation to comply with the	

Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards – Detailed Differences

ISA 200 (REVISED AND REDRAFTED)	PROPOSED SAS	Comments
	ISAs GAAS . The independent auditor is referred to as “ the auditor ” hereafter.	
<p>2. ISAs are written in the context of an audit of financial statements by an auditor. They are to be adapted as necessary in the circumstances when applied to audits of other historical financial information.</p>	<p>2. <i>GAAS are developed and issued in the form of SASs and are codified into AU sections in volume 1 of AICPA Professional Standards.</i> ISAs GAAS are written in the context of an audit of financial statements by an auditor. They are to be adapted as necessary in the circumstances when applied to audits of other historical financial information.</p>	
<p>An Audit of Financial Statements</p>	<p>An Audit of Financial Statements</p>	
<p>3. The purpose of an audit is to enhance the degree of confidence of intended users in the financial statements. This is achieved by the expression of an opinion by the auditor on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework. In the case of most general purpose frameworks, that opinion is on whether the financial statements are presented fairly, in all material respects, or give a true and fair view in accordance with the framework. An audit conducted in accordance with ISAs and relevant ethical requirements enables the auditor to form that opinion. (Ref: Para. A1)</p>	<p>3. The purpose of an audit is to enhance the degree of confidence of <i>that</i> intended users <i>can place</i> in the financial statements. This is achieved by the expression of an opinion by the auditor on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework. In the case of most general purpose frameworks, that opinion is on whether the financial statements are presented fairly, in all material respects, or give a true and fair view in accordance with the framework. An audit conducted in accordance with ISAs GAAS and relevant ethical requirements enables the auditor to form that opinion. (Ref: Para. A1)</p>	<p>Language changed to put the focus on the financial statements, not on the user.</p>
<p>4. The financial statements subject to audit are those of the entity, prepared and presented by management of the entity with oversight from those charged with governance. ISAs do not impose responsibilities on</p>	<p>4. The financial statements subject to audit are those of the entity, prepared and presented by management of the entity with oversight from those charged with governance. ISAs do GAAS does not impose</p>	

Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards – Detailed Differences

ISA 200 (REVISED AND REDRAFTED)	PROPOSED SAS	Comments
management or those charged with governance and do not override laws and regulations that govern their responsibilities. However, an audit in accordance with ISAs is conducted on the premise that management and, where appropriate, those charged with governance have responsibilities that are fundamental to the conduct of the audit. The audit of the financial statements does not relieve management or those charged with governance of those responsibilities. (Ref: Para. A2-A11)	responsibilities on management or those charged with governance and does not override laws and regulations that govern their responsibilities. However, an audit in accordance with ISAs GAAS is conducted on the premise that management and, where appropriate, those charged with governance have responsibilities that are fundamental to the conduct of the audit. The audit of the financial statements does not relieve management or those charged with governance of those responsibilities. (Ref: Para. A2–A13)	
<p>5. As the basis for the auditor’s opinion, ISAs require the auditor to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Reasonable assurance is a high level of assurance. It is obtained when the auditor has obtained sufficient appropriate audit evidence to reduce audit risk (i.e., the risk that the auditor expresses an inappropriate opinion when the financial statements are materially misstated) to an acceptably low level. However, reasonable assurance is not an absolute level of assurance, because there are inherent limitations of an audit which result in most of the audit evidence on which the auditor draws conclusions and bases the auditor’s opinion being persuasive rather than conclusive. (Ref: Para. A28-A52)</p>	<p>5. As the basis for the auditor’s opinion, ISAs GAAS requires the auditor to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Reasonable assurance is a high, but not absolute, level of assurance. It is obtained when the auditor has obtained sufficient appropriate audit evidence to reduce audit risk (i.e., that is, the risk that the auditor expresses an inappropriate opinion when the financial statements are materially misstated) to an acceptably low level. However, reasonable assurance is not an absolute level of assurance, because there are inherent limitations of an audit which that result in most of the audit evidence on which the auditor draws conclusions and bases the auditor’s opinion being persuasive rather than conclusive. (Ref: Para. A31–A57)</p>	
<p>6. The concept of materiality is applied by the auditor</p>	<p>6. The concept of materiality is applied by the</p>	

Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards – Detailed Differences

ISA 200 (REVISED AND REDRAFTED)	PROPOSED SAS	Comments
<p>both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements.¹ In general, misstatements, including omissions, are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. Judgments about materiality are made in the light of surrounding circumstances, and are affected by the auditor's perception of the financial information needs of users of the financial statements, and by the size or nature of a misstatement, or a combination of both. The auditor's opinion deals with the financial statements as a whole and therefore the auditor is not responsible for the detection of misstatements that are not material to the financial statements as a whole.</p>	<p>auditor both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements.¹ In general, misstatements, including omissions, are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of based on the financial statements. Judgments about materiality are made in the light of surrounding circumstances, and are affected by the auditor's perception of the financial information needs of users of the financial statements, and by the size or nature of a misstatement, or a combination of both. The auditor's opinion deals with the financial statements as a whole and therefore the auditor is not responsible for the detection of misstatements that are not material to the financial statements as a whole. (<i>Ref: par. A14</i>)</p>	
<p>7. The ISAs contain objectives, requirements and application and other explanatory material that are designed to support the auditor in obtaining reasonable assurance. The ISAs require that the auditor exercise professional judgment and maintain professional skepticism throughout the planning and performance of the audit and, among other things:</p>	<p>7. The ISAs contain GAAS contains objectives, requirements and application and other explanatory material that are designed to support the auditor in obtaining reasonable assurance. The ISAs require GAAS requires that the auditor exercise professional judgment and maintain professional skepticism throughout the planning and performance of the audit and, among other things:</p>	

¹ ISA 320 (Revised and Redrafted), "Materiality in Planning and Performing an Audit" and ISA 450 (Redrafted), "Evaluation of Misstatements Identified during the Audit."

¹ ~~ISA 320 (Revised and Redrafted), "Materiality in Planning and Performing an Audit" and ISA 450 (Redrafted), "Evaluation of Misstatements Identified during the Audit."~~ **See AU section 312, Audit Risk and Materiality (AICPA, Professional Standards, vol. 1).**

Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards – Detailed Differences

ISA 200 (REVISED AND REDRAFTED)	PROPOSED SAS	Comments
<ul style="list-style-type: none"> Identify and assess risks of material misstatement, whether due to fraud or error, based on an understanding of the entity and its environment, including the entity's internal control. 	<ul style="list-style-type: none"> Identify and assess risks of material misstatement, whether due to fraud or error, based on an understanding of the entity and its environment, including the entity's internal control. 	
<ul style="list-style-type: none"> Obtain sufficient appropriate audit evidence about whether material misstatements exist, through designing and implementing appropriate responses to the assessed risks. 	<ul style="list-style-type: none"> Obtain sufficient appropriate audit evidence about whether material misstatements exist, through designing and implementing appropriate responses to the assessed risks. 	
<ul style="list-style-type: none"> Form an opinion on the financial statements based on conclusions drawn from the audit evidence obtained. 	<ul style="list-style-type: none"> Form an opinion on the financial statements based on conclusions drawn from the audit evidence obtained. 	
<p>8. The form of opinion expressed by the auditor will depend upon the applicable financial reporting framework and any applicable laws or regulations. (Ref: Para.A12-A13)</p>	<p>8. The form of opinion expressed by the auditor will depend upon the applicable financial reporting framework and any applicable laws or regulations. (Ref: Para. A12- A13)</p>	
<p>9. The auditor may also have certain other communication and reporting responsibilities to users, management, those charged with governance, or parties outside the entity, in relation to matters arising from the audit. These may be established by the ISAs or by</p>	<p>9. The auditor may also have certain other communication and reporting responsibilities to users, management, those charged with governance, or parties outside the entity, in relation to matters arising from the audit. These may be established by the ISAs GAAS or</p>	

² See, for example, ISA 260 (Revised and Redrafted), "Communication with Those Charged with Governance," and ISA 240 (Redrafted), "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements," paragraph 43.

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ISA 200 (REVISED AND REDRAFTED)	PROPOSED SAS	Comments
applicable laws or regulations. ²	by applicable laws or regulations. ²	
Effective Date	Effective Date	
10. This ISA is effective for audits of financial statements for periods beginning on or after December 15, 2009.	10. This ISA-SAS is effective for audits of financial statements for periods beginning on or after December 15, 2009 2010 . ³	
Overall Objectives of the Auditor	Overall Objectives of the Auditor	
11. In conducting an audit of financial statements, the overall objectives of the auditor are:	11. In conducting an audit of financial statements, the overall objectives of the auditor are:	
(a) To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework; and	(a) a. To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework; and	
(b) To report on the financial statements, and communicate as required by the ISAs, in accordance with the auditor's findings.	(b) b. To report on the financial statements, and communicate as required by the ISAs GAAS , in accordance with the auditor's findings.	
12. In all cases when reasonable assurance cannot be obtained and a qualified opinion in the auditor's report is	12. In all cases when reasonable assurance cannot be obtained and a qualified opinion in the auditor's report is	

² See, for example, ~~ISA 260 (Revised and Redrafted)~~, **AU section 380, The Auditor's Communication With Those Charged With Governance**, and ~~ISA 240 (Redrafted)~~, "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements," paragraph 43. **AU section 316, Consideration of Fraud in a Financial Statement Audit, paragraph .82 (AICPA, Professional Standards, vol. 1).**

³ *This date is provisional, but will not be earlier than December 15, 2010.*

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ISA 200 (REVISED AND REDRAFTED)	PROPOSED SAS	Comments
insufficient in the circumstances for purposes of reporting to the intended users of the financial statements, the ISAs require that the auditor disclaim an opinion or withdraw from the engagement, where withdrawal is legally permitted.	insufficient in the circumstances for purposes of reporting to the intended users of the financial statements, the ISAs require GAAS requires that the auditor disclaim an opinion or withdraw from the engagement, where withdrawal is legally permitted not prohibited by law or regulation .	
Definitions	Definitions	
13. For purposes of the ISAs, the following terms have the meanings attributed below:	13. For purposes of the ISAs GAAS , the following terms have the meanings attributed below as follows :	
<p>(a) Applicable financial reporting framework – The financial reporting framework adopted by management and, where appropriate, those charged with governance in the preparation and presentation of the financial statements, that is acceptable in view of the nature of the entity and the objective of the financial statements, or that is required by law or regulation.</p> <p>The term “fair presentation framework” is used to refer to a financial reporting framework that requires compliance with the requirements of the framework and:</p> <ul style="list-style-type: none"> (i) Acknowledges explicitly or implicitly that, to achieve fair presentation of the financial statements, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or (ii) Acknowledges explicitly that it may be 	<p>(a) <i>Applicable financial reporting framework.</i> –The financial reporting framework adopted by management and, where appropriate, those charged with governance in the preparation and presentation of the financial statements; that is acceptable in view of the nature of the entity and the objective of the financial statements, or that is required by law or regulation. <i>See financial reporting framework.</i></p>	

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ISA 200 (REVISED AND REDRAFTED)	PROPOSED SAS	Comments
<p>necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial statements. Such departures are expected to be necessary only in extremely rare circumstances.</p> <p>The term “compliance framework” is used to refer to a financial reporting framework that requires compliance with the requirements of the framework, but does not contain the acknowledgements in (i) or (ii) above.</p>		
(b) Audit evidence – Information used by the auditor in arriving at the conclusions on which the auditor’s opinion is based. Audit evidence includes both information contained in the accounting records underlying the financial statements and other information. For purposes of the ISAs:	(b) <i>Audit evidence.</i> –Information used by the auditor in arriving at the conclusions on which the auditor’s opinion is based. Audit evidence includes both information contained in the accounting records underlying the financial statements and other information. For purposes of the ISAs:	
(i) Sufficiency of audit evidence is the measure of the quantity of audit evidence. The quantity of the audit evidence needed is affected by the auditor’s assessment of the risks of material misstatement and also by the quality of such audit evidence.	(i) (1) Sufficiency of audit evidence is the measure of the quantity of audit evidence. The quantity of the audit evidence needed is affected by the auditor’s assessment of the risks of material misstatement and also by the quality of such audit evidence.	
(ii) Appropriateness of audit evidence is the measure of the quality of audit evidence; that is, its relevance and its reliability in providing support for the conclusions on which the auditor’s opinion is based.	(ii) (2) Appropriateness of audit evidence is the measure of the quality of audit evidence; that is, its relevance and its reliability in providing support for the conclusions on which the auditor’s opinion is based.	
(c) Audit risk – The risk that the auditor expresses an	(c) <i>Audit risk.</i> –The risk that the auditor expresses an	

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ISA 200 (REVISED AND REDRAFTED)	PROPOSED SAS	Comments
inappropriate audit opinion when the financial statements are materially misstated. Audit risk is a function of the risks of material misstatement and detection risk.	inappropriate audit opinion when the financial statements are materially misstated. Audit risk is a function of the risks of material misstatement and detection risk.	
(d) Auditor – “Auditor” is used to refer to the person or persons conducting the audit, usually the engagement partner or other members of the engagement team, or, as applicable, the firm. Where an ISA expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term “engagement partner” rather than “auditor” is used. “Engagement partner” and “firm” are to be read as referring to their public sector equivalents where relevant.	(d) Auditor. – “Auditor” is The term used to refer to the person or persons conducting the audit, usually the engagement partner or other members of the engagement team, or, as applicable, the firm. Where an ISA <i>an AU section</i> expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term “ engagement partner ” rather than “ auditor ” is used. “ Engagement partner ” and “ firm ” are to be read as referring to their public sector <i>governmental</i> equivalents where relevant.	
(e) Detection risk – The risk that the procedures performed by the auditor to reduce audit risk to an acceptably low level will not detect a misstatement that exists and that could be material, either individually or when aggregated with other misstatements.	(e) Detection risk. –The risk that the procedures performed by the auditor to reduce audit risk to an acceptably low level will not detect a misstatement that exists and that could be material, either individually or when aggregated with other misstatements.	
	<i>Financial reporting framework. A set of criteria used to determine measurement, recognition, presentation, and disclosure of all material items appearing in the financial statements, for example, accounting principles generally accepted in the United States of America (GAAP), International Financial Reporting</i>	Definition added as term is not familiar in the United States.

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ISA 200 (REVISED AND REDRAFTED)	PROPOSED SAS	Comments
	<i>Standards (IFRS) issued by the International Accounting Standards Board (IASB) or comprehensive bases of accounting other than GAAP (OCBOA).</i>	
See 13(a).	The term “ fair presentation framework ” is used to refer to a financial reporting framework that requires compliance with the requirements of the framework and:	
	(i)(1) Acknowledges explicitly or implicitly that, to achieve fair presentation of the financial statements, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or	
	(ii)(2) Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial statements. Such departures are expected to be necessary only in extremely rare circumstances.	
	The term “ compliance regulatory or contractual-based framework ” is used to refer to a financial reporting framework that requires compliance with the requirements of the framework, but does not contain the acknowledgements in (i1) or (ii2) above <i>of the preceding</i> .	Term changed as unfamiliar in the United States and may create confusion with compliance audits.
(f) Financial statements – A structured representation	(F) <i>Financial statements.</i> –A structured representation	

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of historical financial information, including related notes, intended to communicate an entity's economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The term "financial statements" ordinarily refers to a complete set of financial statements as determined by the requirements of the applicable financial reporting framework, but can also refer to a single financial statement.	of historical financial information, including related notes, intended to communicate an entity's economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The term " financial statements " ordinarily refers to a complete set of financial statements as determined by the requirements of the applicable financial reporting framework, but can also refer to a single financial statement.	
(g) Historical financial information – Information expressed in financial terms in relation to a particular entity, derived primarily from that entity's accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past.	(g) <i>Historical financial information.</i> –Information expressed in financial terms in relation to a particular entity, derived primarily from that entity's accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past.	
	<i>Interpretive publications. Auditing interpretations of GAAS, exhibits to GAAS, auditing guidance included in AICPA Audit and Accounting Guides, and AICPA Auditing Statements of Position.</i>	Definition unique to United States (from AU section 150 paragraph .05)
(h) Management – The person(s) with executive responsibility for the conduct of the entity's operations. For some entities in some jurisdictions, management	(h) <i>Management.</i> –The person(s) with executive responsibility for the conduct of the entity's operations. For some entities in some	

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includes some or all of those charged with governance, for example, executive members of a governance board, or an owner-manager.	jurisdictions , management includes some or all of those charged with governance; for example, executive members of a governance board; or an owner-manager.	
(i) Misstatement – A difference between the amount, classification, presentation, or disclosure of a reported financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Misstatements can arise from error or fraud.	(i) <i>Misstatement.</i> –A difference between the amount, classification, presentation, or disclosure of a reported financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Misstatements can arise from error or fraud or error.	
When the auditor expresses an opinion on whether the financial statements are presented fairly, in all material respects, or give a true and fair view, misstatements also include those adjustments of amounts, classifications, presentation, or disclosures that, in the auditor’s judgment, are necessary for the financial statements to be presented fairly, in all material respects or give a true and fair view.	When the auditor expresses an opinion on whether the financial statements are presented fairly, in all material respects, or give a true and fair view misstatements also include those adjustments of amounts, classifications, presentations, or disclosures that, in the auditor’s judgment, are necessary for the financial statements to be presented fairly, in all material respects or give a true and fair view.	Opinions in United States are not on whether the financial statements give a true and fair view.
	<i>Other auditing publications. Publications other than interpretive publications; these include AICPA auditing publications not defined as interpretive publications; auditing articles in the Journal of Accountancy and other professional journals; auditing articles in the AICPA CPA Letter; continuing professional education programs and other instruction materials, textbooks,</i>	Definition unique to United States (from AU section 150 paragraph .07)

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	<i>guide books, audit programs, and checklists; and other auditing publications from state CPA societies, other organizations, and individuals.</i>	
(j) Premise, relating to the responsibilities of management and, where appropriate, those charged with governance, on which an audit is conducted – That management and, where appropriate, those charged with governance have the following responsibilities that are fundamental to the conduct of an audit in accordance with ISAs. That is, responsibility:	(j) <i>Premise, relating to the responsibilities of management and, where appropriate, those charged with governance, on which an audit is conducted. –That mManagement and, where appropriate, those charged with governance have the following responsibilities that are fundamental to the conduct of an audit in accordance with ISAs GAAS. That is, responsibility:</i>	
(i) For the preparation and presentation of the financial statements in accordance with the applicable financial reporting framework; this includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error; and	(i) (1)– <i>For the preparation and presentation of the financial statements in accordance with the applicable financial reporting framework; this includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error; and</i>	
(ii) To provide the auditor with:	(ii) (2) To <i>provide the auditor with:</i>	
a. All information, such as records and documentation, and other matters that are relevant to the preparation and presentation of the financial statements;	a. <i>(a) All information, such as records and documentation, and other matters that are relevant to the preparation and presentation of the financial statements;</i>	

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b. Any additional information that the auditor may request from management and, where appropriate, those charged with governance; and	b. (b) Any additional information that the auditor may request from management and, where appropriate, those charged with governance; and	
c. Unrestricted access to those within the entity from whom the auditor determines it necessary to obtain audit evidence.	c. (c) Unrestricted access to those within the entity from whom the auditor determines it necessary to obtain audit evidence.	
In the case of a fair presentation framework, the responsibility is for the preparation and <i>fair</i> presentation of the financial statements in accordance with the financial reporting framework; or the preparation of financial statements <i>that give a true and fair view</i> in accordance with the financial reporting framework. This applies to all references to “preparation and presentation of the financial statements” in the ISAs.	In the case of a fair presentation framework, the responsibility is for the preparation and <i>fair</i> presentation of the financial statements in accordance with the financial reporting framework; or the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework. This applies to all references to “ preparation and presentation of the financial statements ” in the ISAs GAAS .	Opinions in United States are not on whether the financial statements give a true and fair view.
The “premise, relating to the responsibilities of management and, where appropriate, those charged with governance, on which an audit is conducted” may also be referred to as the “premise.”	The <i>phrase</i> “ premise, relating to the responsibilities of management and, where appropriate, those charged with governance, on which an audit is conducted ” may also be referred to as the <i>term</i> “ premise. ”	
(k) Professional judgment – The application of relevant training, knowledge and experience, within the context provided by auditing, accounting and ethical standards, in making <u>informed</u> decisions about the courses of action that are appropriate in the	(k) <i>Professional judgment.</i> –The application of relevant training, knowledge, and experience, within the context provided by auditing, accounting, and ethical standards, in making informed decisions about the courses of action	

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circumstances of the audit engagement.	that are appropriate in the circumstances of the audit engagement.	
(l) Professional skepticism – An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence.	(l) <i>Professional skepticism.</i> –An attitude that includes a questioning mind, being alert to conditions which that may indicate possible misstatement due to error or fraud or error , and a critical assessment of audit evidence.	
(m) Reasonable assurance – In the context of an audit of financial statements, a high, but not absolute, level of assurance.	(m) <i>Reasonable assurance.</i> –In the context of an audit of financial statements, a high, but not absolute, level of assurance.	
(n) Risk of material misstatement – The risk that the financial statements are materially misstated prior to audit. This consists of two components, described as follows at the assertion level:	(n) <i>Risk of material misstatement.</i> –The risk that the financial statements are materially misstated prior to the audit. This consists of two components, described as follows at the assertion level:	
(i) Inherent risk – The susceptibility of an assertion about a class of transaction, account balance, or disclosure to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls.	(i) <i>Inherent risk.</i> –The susceptibility of an assertion about a class of transaction, account balance, or disclosure to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls.	
(ii) Control risk – The risk that a misstatement that could occur in an assertion about a class of transaction, account balance, or disclosure and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and	(ii) <i>Control risk.</i> –The risk that a misstatement that could occur in an assertion about a class of transaction, account balance, or disclosure and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a	

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corrected, on a timely basis by the entity's internal control.	timely basis by the entity's internal control.	
(o) Those charged with governance – The person(s) or organization(s) (e.g., a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. Those charged with governance may include management personnel; for example, executive members of a governance board or an owner-manager.	(o) <i>Those charged with governance.</i> –The person(s) or organization(s) (e.g. <i>for example</i> , a corporate trustee) with responsibility for overseeing the strategic direction of the entity and <i>the</i> obligations related to the accountability of the entity. This includes overseeing the financial reporting process. Those charged with governance may include management personnel; for example, executive members of a governance board or an owner-manager.	
Requirements	Requirements	
Ethical Requirements Relating to an Audit of Financial Statements	Ethical Requirements Relating to an Audit of Financial Statements	
14. The auditor shall comply with relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements. (Ref: Para. A14-A17)	14. The auditor shall <i>should</i> comply with relevant ethical requirements, including those pertaining to independence <i>and due care</i> , relating to financial statement audit engagements. (Ref: Para. A15–A20)	Added reference to <i>due care</i> because it is explicitly mentioned in the 10 standards.
Professional Skepticism	Professional Skepticism	
15. The auditor shall plan and perform an audit with professional skepticism recognizing that circumstances may exist that cause the financial statements to be materially misstated. (Ref: Para. A18-A22)	15. The auditor shall <i>should</i> plan and perform an audit with professional skepticism recognizing that circumstances may exist that cause the financial statements to be materially misstated. (Ref: Para. A21–A25)	

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Professional Judgment	Professional Judgment	
16. The auditor shall exercise professional judgment in planning and performing an audit of financial statements. (Ref: Para. A23-A27)	16. The auditor shall should exercise professional judgment in planning and performing an audit of financial statements. (Ref: Para. Para. A26–A30)	
Sufficient Appropriate Audit Evidence and Audit Risk	Sufficient Appropriate Audit Evidence and Audit Risk	
17. To obtain reasonable assurance, the auditor shall obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor’s opinion. (Ref: Para.A28-A52)	17. To obtain reasonable assurance, the auditor shall should obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor’s opinion. (Ref: Para. Para. A31–A55)	
Conduct of an Audit in Accordance with ISAs	Conduct of an Audit in Accordance With ISAs GAAS	
<i>Complying with ISAs Relevant to the Audit</i>	<i>Complying With ISAs AU Sections Relevant to the Audit</i>	
18. The auditor shall comply with all ISAs relevant to the audit. An ISA is relevant to the audit when the ISA is in effect and the circumstances addressed by the ISA exist. (Ref: Para. A53-A57)	18. The auditor shall should comply with all ISAs AU sections relevant to the audit. An ISA AU section is relevant to the audit when the ISA AU section is in effect and the circumstances addressed by the ISA AU section exist. (Ref: Para. Para. A56–A61)	
19. The auditor shall have an understanding of the entire text of an ISA, including its application and other explanatory material, to understand its objectives and to apply its requirements properly. (Ref: Para. A58-A66)	19. The auditor shall should have an understanding of the entire text of an ISA AU section , including its application and other explanatory material, to understand its objectives and to apply its requirements properly. (Ref:	

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	Para. A62–A69)	
20. The auditor shall not represent compliance with ISAs in the auditor’s report unless the auditor has complied with the requirements of this ISA and all other ISAs relevant to the audit.	20. The auditor shall —should not represent compliance with ISAs GAAS in the auditor’s report unless the auditor has complied with the requirements of this ISA–SAS and all other ISAs–AU sections relevant to the audit.	
<i>Objectives Stated in Individual ISAs</i>	<i>Objectives Stated in Individual ISAs–AU Sections</i>	
21. To achieve the overall objectives of the auditor, the auditor shall use the objectives stated in relevant ISAs in planning and performing the audit, having regard to the interrelationships among the ISAs, to: (Ref: Para. A67-A69)	21. To achieve the overall objectives of the auditor, the auditor shall —should use the objectives stated in relevant ISAs–AU sections in planning and performing the audit having regard to —considering the interrelationships among the ISAs GAAS , to: (Ref: Para. A70–A72)	
(a) Determine whether any audit procedures in addition to those required by the ISAs are necessary in pursuance of the objectives stated in the ISAs; and (Ref: Para. A70)	(a) a. D determine whether any audit procedures in addition to those required by the ISA GAAS are necessary in pursuance of the objectives stated in the ISAs–GAAS ; and (Ref: Para. A73)	
(b) Evaluate whether sufficient appropriate audit evidence has been obtained. (Ref: Para.A71)	(b) b. E valuate whether sufficient appropriate audit evidence has been obtained. (Ref: Para. A74)	
<i>Complying with Relevant Requirements</i>	<i>Complying wWith Relevant Requirements</i>	
22. Subject to paragraph 23, the auditor shall comply with each requirement of an ISA unless, in the circumstances of the audit:	22. Subject to paragraph 24, the auditor shall —should comply with each requirement of an ISA–an AU section unless, in the circumstances of the audit:	
(a) The entire ISA is not relevant; or	(a) a. T he entire ISA–AU section is not relevant; or	

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(b) The requirement is not relevant because it is conditional and the condition does not exist. (Ref: Para. A72-A73)	(b) b. The requirement is not relevant because it is conditional and the condition does not exist. (Ref: Para. A75–A76)	
	<i>Defining Professional Responsibilities in GAAS</i>	
	<p>23. <i>GAAS uses two categories of professional requirements, identified by specific terms, to describe the degree of responsibility it imposes on auditors, as follows:</i></p> <ul style="list-style-type: none"> • Unconditional requirements. <i>The auditor must comply with an unconditional requirement in all cases where such requirement is relevant. GAAS uses the words must or is required to indicate an unconditional requirement.</i> • Presumptively mandatory requirements. <i>The auditor must comply with a presumptively mandatory requirement in all cases in which such requirement is relevant except in rare circumstances discussed in paragraph 24. GAAS uses the word should to indicate a presumptively mandatory requirement.</i> (Ref: Para: A77) 	From AU section 120 paragraph .04. Note deletion of “is required” from existing SAS. Phrase led to confusion as to nature of requirement.
23. In exceptional circumstances, the auditor may judge it necessary to depart from a relevant requirement in an ISA. In such circumstances, the auditor shall perform alternative audit procedures to achieve the aim of that requirement. The need for the auditor to depart	24. In exceptional <i>rare</i> circumstances, the auditor may judge it necessary to depart from a relevant <i>presumptively mandatory</i> requirement in an ISA . In such circumstances, the auditor shall <i>should</i> perform alternative audit procedures to achieve the aim <i>intent</i> of	Language modified as ISAs do not have two categories of professional requirements, as do the PCAOB standards. ASB retained two categories

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from a relevant requirement is expected to arise only where the requirement is for a specific procedure to be performed and, in the specific circumstances of the audit, that procedure would be ineffective in achieving the aim of the requirement. (Ref: Para. A74)	that requirement. The need for the auditor to depart from a relevant <i>presumptively mandatory</i> requirement is expected to arise only where the requirement is for a specific procedure to be performed and, in the specific circumstances of the audit, that procedure would be ineffective in achieving the aim <i>intent</i> of the requirement. (Ref: Para. A78)	to avoid unnecessary differences with the PCAOB.
	Interpretive Publications	
	25. <i>The auditor should be aware of and consider interpretive publications applicable to his or her audit.</i> (Ref. Para. A79)	From AU section 150 paragraph .06.
	Other Auditing Publications	
	26. <i>If an auditor applies the auditing guidance included in an other auditing publication, the auditor should, using professional judgment, assess the relevance and appropriateness of such guidance to the circumstances of the audit.</i> (Ref. Para. A80-A82)	From AU section 150 paragraph .08.
<i>Failure to Achieve an Objective</i>	<i>Failure to Achieve an Objective</i>	
24. If an objective in a relevant ISA cannot be achieved, the auditor shall evaluate whether this prevents the auditor from achieving the overall objectives of the auditor and, thereby requires the auditor, in accordance with the ISAs, to modify the auditor's opinion or withdraw from the engagement. Failure to achieve an	27. If an objective in a relevant ISA <i>AU section</i> cannot be achieved, the auditor shall <i>should</i> evaluate whether this prevents the auditor from achieving the overall objectives of the auditor and, thereby requires the auditor, in accordance with the ISAs <i>GAAS</i> , to modify the auditor's opinion or withdraw from the engagement.	

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objective represents a significant matter requiring documentation in accordance with ISA 230 (Redrafted) ³ . (Ref: Para. A75-A76)	Failure to achieve an objective represents a significant matter <i>finding or issue</i> requiring documentation in accordance with ISA 230 (Redrafted) <i>paragraph .04 of AU section 339, Audit Documentation (AICPA, Professional Standards, vol. 1).</i> ³ (Ref: Para. A83–A84)	
* * *		
Application and Other Explanatory Material	Application and Other Explanatory Material	
An Audit of Financial Statements	An Audit of Financial Statements	
<i>Scope of the Audit</i> (Ref: Para. 3)	<i>Scope of the Audit</i> (Ref: Para. 3)	
A1. The auditor’s opinion on the financial statements deals with whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. Such an opinion is common to all audits of financial statements. The auditor’s opinion therefore does not assure, for example, the future viability of the entity nor the efficiency or effectiveness with which management has conducted the affairs of the entity. In some jurisdictions, however, applicable laws and regulations may require auditors to provide opinions on other specific matters, such as the effectiveness of internal control, or the consistency of a separate management report with the financial statements. While the ISAs include requirements and guidance in relation to such matters to the extent that	A1. The auditor’s opinion on the financial statements deals with whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. Such an opinion is common to all audits of financial statements. The auditor’s opinion therefore does not assure, for example, the future viability of the entity nor the efficiency or effectiveness with which management has conducted the affairs of the entity. In some jurisdictions <i>circumstances</i> , however, applicable laws and regulations may require auditors to provide opinions on other specific matters, such as the effectiveness of internal control, or the consistency of a separate management report with the financial statements. While the ISAs include <i>Although GAAS includes</i> requirements and guidance in relation to	Stricken language not applicable in United States.

³ ISA 230 (Redrafted), “Audit Documentation,” paragraph 8(c).

³ ~~ISA 230 (Redrafted), “Audit Documentation,” paragraph 8(c).~~

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they are relevant to forming an opinion on the financial statements, the auditor would be required to undertake further work if the auditor had additional responsibilities to provide such opinions.	such matters to the extent that they are relevant to forming an opinion on the financial statements, the auditor would be required to undertake further work if the auditor had additional responsibilities to provide such opinions.	
<i>Preparation of the Financial Statements</i> (Ref: Para. 4)	<i>Preparation of the Financial Statements</i> (Ref: P para. 4)	
A2. An audit in accordance with ISAs is conducted on the premise that management and, where appropriate, those charged with governance have responsibility:	A2. An audit in accordance with ISAs GAAS is conducted on the premise that management and, where appropriate, those charged with governance have responsibility:	
(a) For the preparation and presentation of the financial statements in accordance with the applicable financial reporting framework; this includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error; and	(a) a. F for the preparation and presentation of the financial statements in accordance with the applicable financial reporting framework; this includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error; and	
(b) To provide the auditor with:	(b) b. T o provide the auditor with:	
(i) All information, such as records and documentation, and other matters that are relevant to the preparation and presentation of the financial statements;	(i) (1) A ll information, such as records and documentation, and other matters that are relevant to the preparation and presentation of the financial statements;	
(ii) Any additional information that the	(ii) (2) A ny additional information that the	

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auditor may request from management and, where appropriate, those charged with governance; and	auditor may request from management and, where appropriate, those charged with governance; and	
(iii) Unrestricted access to those within the entity from whom the auditor determines it necessary to obtain audit evidence.	(iii) (3) Unrestricted access to those within the entity from whom the auditor determines it necessary to obtain audit evidence.	
<p>A3. As part of their responsibility for the preparation and presentation of the financial statements, management and, where appropriate, those charged with governance are responsible for:</p> <ul style="list-style-type: none"> • The identification of the applicable financial reporting framework, in the context of any relevant laws or regulations. • The preparation and presentation of the financial statements in accordance with that framework. • An adequate description of that framework in the financial statements. <p>The preparation of the financial statements requires management to exercise judgment in making accounting estimates that are reasonable in the circumstances, as well as to select and apply appropriate accounting policies. These judgments are made in the context of the applicable financial reporting framework.</p>	<p>A3. As part of their responsibility for the preparation and presentation of the financial statements, management and, where appropriate, those charged with governance are responsible for:</p> <ul style="list-style-type: none"> • The identification of the applicable financial reporting framework, in the context of any relevant laws or regulations. • The preparation and presentation of the financial statements in accordance with that framework. • An adequate description of that framework in the financial statements. <p>The preparation of the financial statements requires management to exercise judgment in making accounting estimates that are reasonable in the circumstances, as well as to select and apply appropriate accounting policies. These judgments are made in the context of the applicable financial reporting framework.</p>	
	A4. The auditor may make suggestions about the	From AU section 110

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	<i>form or content of the financial statements or draft them, in whole or in part, based on information from management during the performance of the audit. However, the auditor's responsibility for the audited financial statements is confined to the expression of the auditor's opinion on them.</i>	paragraph .03.
A4. The financial statements may be prepared in accordance with a financial reporting framework designed to meet:	A5. The financial statements may be prepared in accordance with a financial reporting framework designed to meet:	
<ul style="list-style-type: none"> The common financial information needs of a wide range of users (i.e., “general purpose financial statements”); or 	<ul style="list-style-type: none"> The the common financial information needs of a wide range of users (i.e.that is, “general purpose financial statements”); or 	
<ul style="list-style-type: none"> The financial information needs of specific users (i.e., “special purpose financial statements”). 	<ul style="list-style-type: none"> The the financial information needs of specific users (i.e.that is, “special purpose financial statements”). 	
A5. The applicable financial reporting framework often encompasses financial reporting standards established by an authorized or recognized standards setting organization, or legislative or regulatory requirements. In some cases, the financial reporting framework may encompass both financial reporting standards established by an authorized or recognized standards setting organization and legislative or regulatory requirements. Other sources may provide direction on the application of the applicable financial reporting framework. In some cases, the applicable	A6. The applicable financial reporting framework often encompasses financial reporting—accounting standards established by an authorized or recognized standards setting organization, or legislative or regulatory requirements. In some cases, the financial reporting framework may encompass both financial reporting—accounting standards established by an authorized or recognized standards setting organization and legislative or regulatory requirements. Other sources may provide direction on the application of the applicable financial reporting framework. In some cases,	

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financial reporting framework may encompass such other sources, or may even consist only of such sources. Such other sources may include:	the applicable financial reporting framework may encompass such other sources, or may even consist only of such sources. Such other sources may include:	
<ul style="list-style-type: none"> The legal and ethical environment, including statutes, regulations, court decisions, and professional ethical obligations in relation to accounting matters; 	<ul style="list-style-type: none"> The legal and ethical environment, including statutes, regulations, court decisions, and professional ethical obligations in relation to accounting matters; 	
<ul style="list-style-type: none"> Published accounting interpretations of varying authority issued by standards setting, professional or regulatory organizations; 	<ul style="list-style-type: none"> Published accounting interpretations of varying authority issued by standards setting, professional or regulatory organizations; 	
<ul style="list-style-type: none"> Published views of varying authority on emerging accounting issues issued by standards setting, professional or regulatory organizations; 	<ul style="list-style-type: none"> Published views of varying authority on emerging accounting issues issued by standards setting, professional or regulatory organizations; 	
<ul style="list-style-type: none"> General and industry practices widely recognized and prevalent; and 	<ul style="list-style-type: none"> General and industry practices widely recognized and prevalent; and 	
<ul style="list-style-type: none"> Accounting literature. 	<ul style="list-style-type: none"> Accounting literature. 	
Where conflicts exist between the financial reporting framework and the sources from which direction on its application may be obtained, or among the sources that encompass the financial reporting framework, the source with the highest authority prevails.	Where conflicts exist between the financial reporting framework and the sources from which direction on its application may be obtained, or among the sources that encompass the financial reporting framework, the source with the highest authority prevails. <i>See AU section 411, The Meaning of Present Fairly in Conformity with Generally Accepted</i>	

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	<i>Accounting Principles (AICPA, Professional Standards, vol. 1).</i>	
<p>A6. The requirements of the applicable financial reporting framework determine the form and content of the financial statements. Although the framework may not specify how to account for or disclose all transactions or events, it ordinarily embodies sufficient broad principles that can serve as a basis for developing and applying accounting policies that are consistent with the concepts underlying the requirements of the framework.</p>	<p>A7. The requirements of the applicable financial reporting framework determine the form and content of the financial statements. Although the framework may not specify how to account for or disclose all transactions or events, it ordinarily embodies sufficiently broad principles that can serve as a basis for developing and applying accounting policies that are consistent with the concepts underlying the requirements of the framework.</p>	
<p>A7. Some financial reporting frameworks are fair presentation frameworks, while others are compliance frameworks. Financial reporting frameworks that encompass primarily the financial reporting standards established by an organization that is authorized or recognized to promulgate standards to be used by entities for preparing and presenting general purpose financial statements are often designed to achieve fair presentation, for example, International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB).</p>	<p>A8. Some financial reporting frameworks are fair presentation frameworks, while <i>whereas</i> others are compliance—<i>regulatory or contractual-based</i> frameworks. Financial reporting frameworks that encompass primarily the financial reporting—<i>accounting</i> standards established by an organization that is authorized or recognized to promulgate standards to be used by entities for preparing and presenting general purpose financial statements are often—designed to achieve fair presentation; for example, <i>GAAP or International Financial Reporting Standards (IFRSs)</i> issued by the International Accounting Standards Board (IASB).</p>	
<p>A8. The requirements of the applicable financial reporting framework also determine what constitutes a complete set of financial statements. In the case of many frameworks, financial statements are intended to provide information about the financial position, financial</p>	<p>A9. The requirements of the applicable financial reporting framework also determine what constitutes a complete set of financial statements. In the case of many frameworks, financial statements are intended to provide information about the financial position, financial</p>	<p>Example not relevant in United States.</p>

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<p>performance and cash flows of an entity. For such frameworks, a complete set of financial statements would include a balance sheet; an income statement; a statement of changes in equity; a cash flow statement; and related notes. For some other financial reporting frameworks, a single financial statement and the related notes might constitute a complete set of financial statements.</p> <ul style="list-style-type: none"> For example, the International Public Sector Accounting Standard (IPSAS), “Financial Reporting Under the Cash Basis of Accounting” issued by the International Public Sector Accounting Standards Board states that the primary financial statement is a statement of cash receipts and payments when a public sector entity prepares and presents its financial statements in accordance with that IPSAS. Other examples of a single financial statement, each of which would include related notes, are: 	<p>performance, and cash flows of an entity. For such frameworks example, a complete set of financial statements would might include a balance sheet; an income statement; a statement of changes in equity; a cash flow statement; and related notes. For some other financial reporting frameworks, a single financial statement and the related notes might constitute a complete set of financial statements.</p> <p>For example, the International Public Sector Accounting Standard (IPSAS), “Financial Reporting Under the Cash Basis of Accounting” states that the primary financial statement is a statement of cash receipts and payments when a public sector entity prepares and presents its financial statements in accordance with that IPSAS. Other Examples of a single financial statement, each of which would include related notes, are the following:</p>	
<ul style="list-style-type: none"> Balance sheet. 	<ul style="list-style-type: none"> Balance sheet. 	
<ul style="list-style-type: none"> Statement of income or statement of operations. 	<ul style="list-style-type: none"> Statement of income or statement of operations. 	
<ul style="list-style-type: none"> Statement of retained earnings. 	<ul style="list-style-type: none"> Statement of retained earnings. 	
<ul style="list-style-type: none"> Statement of cash flows. 	<ul style="list-style-type: none"> Statement of cash flows. 	

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<ul style="list-style-type: none"> Statement of assets and liabilities that does not include owner's equity. 	<ul style="list-style-type: none"> Statement of assets and liabilities that does not include owner's equity. 	
<ul style="list-style-type: none"> Statement of changes in owners' equity. 	<ul style="list-style-type: none"> Statement of changes in owners' equity. 	
<ul style="list-style-type: none"> Statement of revenue and expenses. 	<ul style="list-style-type: none"> Statement of revenue and expenses. 	
<ul style="list-style-type: none"> Statement of operations by product lines. 	<ul style="list-style-type: none"> Statement of operations by product lines. 	
<p>A9. [Proposed] ISA 210 (Redrafted) establishes requirements and provides guidance on determining the acceptability of the applicable financial reporting framework.⁴ ISA 800 (Revised and Redrafted) deals with special considerations when financial statements are prepared in accordance with a special purpose framework.⁵</p>	<p>A10. [Proposed] ISA 210 (Redrafted) establishes requirements and provides guidance on determining the acceptability of the applicable financial reporting framework.⁴ ISA 800 (Revised and Redrafted) contains additional considerations for special purpose framework.⁵ AU section 623, Special Reports (AICPA, Professional Standards, vol. 1), addresses engagements where the auditor issues a report in connection with financial statements whose applicable financial reporting framework is not GAAP.</p>	<p>ISA language modified to be consistent with existing auditing standards generally accepted in the United States.</p>
<p>A10. Because of the significance of the premise to the conduct of an audit, the auditor is required to obtain agreement from management and, where appropriate, those charged with governance that they acknowledge</p>	<p>A11. Because of the significance of the premise to the conduct of an audit, the auditor is required to <i>establish an understanding with the client that includes management's responsibilities.</i> obtain agreement from</p>	<p>ISA language modified to be consistent with existing auditing standards generally accepted in the United</p>

⁴ [Proposed] ISA 210 (Redrafted), "Agreeing the Terms of Audit Engagements," paragraph [4(a)].

⁵ [ISA 800 (Revised and Redrafted), "Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks," paragraphs to be inserted.]

⁴ ~~[Proposed] ISA 210 (Redrafted), "Agreeing the Terms of Audit Engagements," paragraph [4(a)].~~

⁵ ~~[ISA 800 (Revised and Redrafted), "Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks," paragraphs to be inserted.]~~

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and understand their responsibilities set out in paragraph A2 as a precondition for accepting the audit engagement. ⁶ The auditor is also required to obtain written representations about whether management and, where appropriate, those charged with governance have fulfilled those responsibilities. ⁷	management and, where appropriate, those charged with governance that they acknowledge and understand their responsibilities set out in paragraph A2 as a precondition for accepting the audit engagement. ⁴ The auditor is also required to obtain written representations about whether management and, where appropriate, those charged with governance have fulfilled those responsibilities. ⁵	States.
Considerations Specific to Audits in the Public Sector	Considerations Specific to Audits in the Public Sector of <i>Governmental Entities</i>	
A11. The mandates for audits of the financial statements of public sector entities may be broader than those of other entities. As a result, the premise, relating to management’s responsibilities, on which an audit of the financial statements of a public sector entity is conducted may include additional responsibilities, such as the responsibility for the execution of transactions and events in accordance with legislation or proper authority.	A12. The mandates for audits of the financial statements of public sector <i>governmental</i> entities may be broader than those of other entities. As a result, the premise, relating to management’s responsibilities, on which an audit of the financial statements of a public sector <i>governmental</i> entity is conducted may include additional responsibilities, such as the responsibility for the execution of transactions and events in accordance with legislation or proper authority.	
	A13. <i>In audits of government entities and entities that receive government awards, auditors may have a responsibility under law, regulation, or grant agreement to report to third parties, such as funding</i>	Added application material specific to governmental entities in the United States.

⁶ [Proposed] ISA 210 (Redrafted), paragraph [4(b)].

⁷ ISA 580 (Revised and Redrafted), “Written Representations,” paragraphs 10-11.

⁴ ~~[Proposed] ISA 210 (Redrafted), paragraph 4(b).~~ *See AU section 311, Planning and Supervision, paragraphs .08–.09 (AICPA, Professional Standards, vol. 1).*

⁵ ~~ISA 580 (Revised and Redrafted), “Written Representations,” paragraphs 10–11.~~ *See AU section 333, Management Representations, paragraph .06 (AICPA, Professional Standards, vol. 1).*

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	<i>agencies or oversight bodies.</i>	
	<p>Materiality (Ref: Para.6)</p> <p>Considerations Specific to Governmental Entities</p> <p>A14. <i>For most state or local governments, a governmental entity’s applicable financial reporting framework is based on multiple reporting units. That is, a state or local governmental entity’s applicable financial reporting framework requires the presentation of financial statements for its governmental activities, its business-type activities, and each of its major governmental and enterprise funds. Consequently, each reporting unit of the governmental entity represents an opinion unit to the auditor. In this context, the auditor is responsible for the detection of misstatements that are material to an opinion unit within a governmental entity, but is not responsible for the detection of misstatements that are not material to an opinion unit.</i></p>	Added application material specific to governmental entities in the United States.
<i>Form of the Auditor’s Opinion</i> (Ref: Para. 8)	<i>Form of the Audit Opinion</i> (Ref: Para 8)	
A12. The opinion expressed by the auditor is on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. The form of the auditor’s opinion, however, will depend upon the applicable financial reporting framework and any applicable laws or regulations. Most financial reporting frameworks include requirements relating to the presentation of the financial	The opinion expressed by the auditor is on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. The form of the auditor’s opinion, however, will depend upon the applicable financial reporting framework and any applicable laws or regulations. Most financial reporting frameworks include requirements relating to the presentation of the financial statements;	Deleted as does not apply under existing auditing standards generally accepted in the United States.

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statements; for such frameworks, <i>preparation</i> of the financial statements in accordance with the applicable financial reporting framework includes <i>presentation</i> .	for such frameworks, <i>preparation</i> of the financial statements in accordance with the applicable financial reporting framework includes <i>presentation</i>.	
A13. Where the financial reporting framework is a fair presentation framework, as is generally the case for general purpose financial statements, the opinion required by the ISAs is on whether the financial statements are presented fairly, in all material respects, or give a true and fair view. Where the financial reporting framework is a compliance framework, the opinion required is on whether the financial statements are prepared, in all material respects, in accordance with the framework. Unless specifically stated otherwise, references in the ISAs to the auditor's opinion cover both forms of opinion.	Where the financial reporting framework is a fair presentation framework, as is generally the case for general purpose financial statements, the opinion required by the ISAs is on whether the financial statements are presented fairly, in all material respects, or give a true and fair view. Where the financial reporting framework is a compliance framework, the opinion required is on whether the financial statements are prepared, in all material respects, in accordance with the framework. Unless specifically stated otherwise, references in the ISAs to the auditor's opinion cover both forms of opinion.	Deleted as does not apply under existing auditing standards generally accepted in the United States.
Ethical Requirements Relating to an Audit of Financial Statements (Ref: Para. 14)	Ethical Requirements Relating to an Audit of Financial Statements (Ref: P para. 14)	
A14. The auditor is subject to relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements. Relevant ethical requirements ordinarily comprise Parts A and B of the International Federation of Accountants' Code of Ethics for Professional Accountants (the IFAC Code) related to an audit of financial statements together with national requirements that are more restrictive.	A15. The auditor is subject to relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements. Relevant ethical requirements ordinarily comprise Parts A and B of the International Federation of Accountants' Code of Ethics for Professional Accountants (the IFAC Code) related to an audit of financial statements consist of the AICPA Code of Professional Conduct together with national requirements rules of state boards of accountancy and applicable regulatory agencies that are more restrictive.	

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<p>A15. Part A of the IFAC Code establishes the fundamental principles of professional ethics relevant to the auditor when conducting an audit of financial statements and provides a conceptual framework for applying those principles. The fundamental principles with which the auditor is required to comply by the IFAC Code are:</p>	<p>A16. Part A of the IFAC <i>The AICPA Code of Professional Conduct</i> establishes the fundamental principles of professional ethics, relevant to the auditor when conducting an audit of financial statements and provides a conceptual framework for applying those principles. The fundamental principles with which the auditor is required to comply by the IFAC Code are <i>include the following:</i></p>	
<ul style="list-style-type: none"> (a) Integrity; (b) Objectivity; (c) Professional competence and due care; (d) Confidentiality; and (e) Professional behavior. 	<ul style="list-style-type: none"> • <i>Responsibilities</i> • <i>The public interest</i> • Integrity • Objectivity <i>and independence</i>; • Professional competence and due care • <i>Scope and nature of services</i> • Confidentiality; and • Professional behavior 	
<p>Part B of the IFAC Code illustrates how the conceptual framework is to be applied in specific situations.</p>	<p>Part B of the IFAC Code illustrates how the conceptual framework is to be applied in specific situations.</p>	
<p>A16. In the case of an audit engagement it is in the public interest and, therefore, required by the IFAC Code, that the auditor be independent of the entity subject to the audit. The IFAC Code describes independence as comprising both independence of mind and independence in appearance. The auditor's</p>	<p>A17. In the case of an audit engagement, it is in the public interest and, therefore, required by the IFAC <i>AICPA Code of Professional Conduct</i>, that the auditor be independent of the entity subject to the audit. The IFAC Code describes <i>concept of</i> independence as comprising <i>refers to</i> both independence of mind <i>in fact</i></p>	<p>Added application material consistent with AU section 220 paragraph .02.</p>

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independence from the entity safeguards the auditor's ability to form an audit opinion without being affected by influences that might compromise that opinion. Independence enhances the auditor's ability to act with integrity, to be objective and to maintain an attitude of professional skepticism.	and independence in appearance. The auditor's independence from the entity safeguards the auditor's ability to form an audit opinion without being affected by influences that might compromise that opinion. Independence enhances the auditor's ability to act with integrity, to be objective, and to maintain an attitude of professional skepticism. <i>Independence implies an impartiality that recognizes an obligation to be fair not only to management and those charged with governance of an entity but also users of the financial statements who may rely upon the independent auditor's report. Guidance on threats to independence is set forth in the AICPA's Conceptual Framework for AICPA Independence Standards</i>	
	A18. <i>Due care requires the auditor to discharge professional responsibilities with competence and to have the appropriate capabilities to perform the audit and enable an appropriate auditor's report to be issued.</i>	Added application material consistent with AU section 230 paragraph .02.
A17. International Standard on Quality Control (ISQC) 1 (Redrafted) sets out the responsibilities of the firm for establishing policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements, including those pertaining to independence. ⁹ ISA 220 (Redrafted) sets out the engagement partner's responsibilities with respect to relevant ethical	A19. International Standard on Quality Control (ISQC) 1 (Redrafted) Standards (SQCS) No. 7, A Firm's System of Quality Control (AICPA, Professional Standards, vol. 2, QC sec. 10), sets out the responsibilities of the firm for establishing policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements, including those pertaining	Shaded text will be added as a conforming change when AU section 161 is redrafted to converge with ISA 220.

⁹ International Standard on Quality Control (ISQC) 1 (Redrafted), "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements," paragraphs [to be inserted].

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<p>requirements. These include evaluating whether members of the engagement team have complied with relevant ethical requirements, determining the appropriate action if matters come to the engagement partner's attention that indicate that members of the engagement team have not complied with relevant ethical requirements, and forming a conclusion on compliance with independence requirements that apply to the audit engagement.¹⁰ ISA 220 (Redrafted) recognizes that the engagement team is entitled to rely on a firm's systems in meeting its responsibilities with respect to quality control procedures applicable to the individual audit engagement, unless information provided by the firm or other parties suggests otherwise.</p>	<p>to independence.⁶ ISA 220 (Redrafted) sets out the engagement partner's responsibilities with respect to relevant ethical requirements. These include evaluating whether members of the engagement team have complied with relevant ethical requirements, determining the appropriate action if matters come to the engagement partner's attention that indicate that members of the engagement team have not complied with relevant ethical requirements, and forming a conclusion on compliance with independence requirements that apply to the audit engagement.¹⁰ ISA 220 (Redrafted) recognizes that the engagement team is entitled to rely on a firm's systems in meeting its responsibilities with respect to quality control procedures applicable to the individual audit engagement, unless information provided by the firm or other parties suggests otherwise.</p>	
	<i>Considerations Specific to Governmental Entities</i>	
	<p>A20. <i>In audits of government entities and entities that receive government awards, applicable ethical principles and general standards, including standards on auditor independence, professional judgment, competence, and audit quality control and assurance, are set forth in Government Auditing</i></p>	<p>Added application material specific to governmental entities in the United States.</p>

¹⁰ [ISA 220 (Redrafted), "Quality Control for an Audit of Financial Statements," paragraphs [to be inserted].]

⁶ ~~International Standard on Quality Control (ISQC) 1 (Redrafted), "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements," paragraphs [to be inserted]. See Statement on Quality Control Standard (SQCS) No. 7, A Firm's System of Quality Control, paragraphs 19–26 (AICPA, Professional Standards, vol. 2, QC sec. 10).~~

¹⁰ ~~ISA 220 (Redrafted), "Quality Control for an Audit of Financial Statements," paragraphs [to be inserted].]~~

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	Standards in addition to the AICPA Code of Professional Conduct.	
Professional Skepticism (Ref: Para. 15)	Professional Skepticism (Ref: P para. 15)	
A18. Professional skepticism includes being alert to, for example:	A21. Professional skepticism includes being alert to, for example;	
<ul style="list-style-type: none"> • Audit evidence that contradicts other audit evidence obtained. 	<ul style="list-style-type: none"> • Aaudit evidence that contradicts other audit evidence obtained. 	
<ul style="list-style-type: none"> • Information that brings into question the reliability of documents and responses to inquiries to be used as audit evidence. 	<ul style="list-style-type: none"> • Iinformation that brings into question the reliability of documents and responses to inquiries to be used as audit evidence. 	
<ul style="list-style-type: none"> • Conditions that may indicate possible fraud. 	<ul style="list-style-type: none"> • Cconditions that may indicate possible fraud. 	
<ul style="list-style-type: none"> • Circumstances that suggest the need for audit procedures in addition to those required by the ISAs. 	<ul style="list-style-type: none"> • Circumstances that suggest the need for audit procedures in addition to those required by the ISAs GAAS. 	
A19. Maintaining professional skepticism throughout the audit is necessary if the auditor is, for example, to reduce the risks of: <ul style="list-style-type: none"> • Overlooking unusual circumstances. • Over generalizing when drawing conclusions from audit observations • Using inappropriate assumptions in determining the nature, timing, and extent of the audit procedures and evaluating the 	A22. Maintaining professional skepticism throughout the audit is necessary if the auditor is, for example, to reduce the risks of: <ul style="list-style-type: none"> • Overlooking unusual circumstances. • Over-generalizing when drawing conclusions from audit observations. • Using inappropriate assumptions in determining the nature, timing, and extent of the audit procedures and evaluating the results 	

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results thereof.	thereof.	
<p>A20. Professional skepticism is necessary to the critical assessment of audit evidence. This includes questioning contradictory audit evidence and the reliability of documents and responses to inquiries and other information obtained from management and those charged with governance. It also includes consideration of the sufficiency and appropriateness of audit evidence obtained in the light of the circumstances, for example in the case where fraud risk factors exist and a single document, of a nature that is susceptible to fraud, is the sole supporting evidence for a material financial statement amount.</p> <p>A21. The auditor may accept records and documents as genuine unless the auditor has reason to believe the contrary. Nevertheless, the auditor is required to consider the reliability of information to be used as audit evidence.¹¹ In cases of doubt about the reliability of information or indications of possible fraud (for example, if conditions identified during the audit cause the auditor to believe that a document may not be authentic or that terms in a document may have been falsified), the ISAs require that the auditor investigate further and determine what modifications or additions to audit procedures are necessary to resolve the matter.¹²</p>	<p>A23. Professional skepticism is necessary to the critical assessment of audit evidence. This includes questioning contradictory audit evidence and the reliability of documents and responses to inquiries and other information obtained from management and those charged with governance. It also includes consideration of the sufficiency and appropriateness of audit evidence obtained in the light of the circumstances; for example, in the case where fraud risk factors exist and a single document, of a nature that is susceptible to fraud, is the sole supporting evidence for a material financial statement amount.</p> <p>A24. The auditor may accept records and documents as genuine unless the auditor has reason to believe the contrary. Nevertheless, the auditor is required to consider the reliability of information to be used as audit evidence.⁷ In cases of doubt about the reliability of information or indications of possible fraud (for example, if conditions identified during the audit cause the auditor to believe that a document may not be authentic or that terms in a document may have been falsified), the ISAs require GAAS requires that the auditor investigate further and determine what modifications or additions to audit procedures are</p>	

¹¹ [ISA 500 (Redrafted), “Audit Evidence,” paragraph [to be inserted].]

¹² ISA 240 (Redrafted), paragraph 13; [ISA 500 (Redrafted), paragraph [to be inserted]]; and [ISA 505 (Revised and Redrafted), “External Confirmations,” paragraphs [to be inserted].]

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	necessary to resolve the matter. ⁸	
A22. The auditor cannot be expected to disregard past experience of the honesty and integrity of the entity’s management and those charged with governance. Nevertheless, a belief that management and those charged with governance are honest and have integrity does not relieve the auditor of the need to maintain professional skepticism or allow the auditor to be satisfied with less-than-persuasive audit evidence when obtaining reasonable assurance.	A25. <i>The auditor neither assumes that management is dishonest nor assumes unquestioned honesty.</i> The auditor cannot be expected to disregard past experience of the honesty and integrity of the entity’s management and those charged with governance. Nevertheless, a belief that management and those charged with governance are honest and have integrity does not relieve the auditor of the need to maintain professional skepticism or allow the auditor to be satisfied with less-than-persuasive audit evidence when obtaining reasonable assurance.	
Professional Judgment (Ref: Para. 16)	Professional Judgment (Ref: P para. 16)	
A23. Professional judgment is essential to the proper conduct of an audit. This is because interpretation of relevant ethical requirements and the ISAs and the informed decisions required throughout the audit cannot be made without the application of relevant knowledge and experience to the facts and circumstances. Professional judgment is necessary in particular regarding decisions about:	A26. Professional judgment is essential to the proper conduct of an audit. This is because interpretation of relevant ethical requirements and the ISAs–GAAS and the informed decisions required throughout the audit cannot be made without the application of relevant knowledge and experience to the facts and circumstances. Professional judgment is necessary in particular regarding decisions about:	
<ul style="list-style-type: none"> • Materiality and audit risk. 	<ul style="list-style-type: none"> • Materiality and audit risk. 	
<ul style="list-style-type: none"> • The nature, timing, and extent of audit 	<ul style="list-style-type: none"> • The nature, timing, and extent of audit 	

⁷ [ISA 500 (Redrafted), “Audit Evidence,” paragraph [to be inserted]]. See AU section 326, **Audit Evidence, paragraph .09 (AICPA, Professional Standards, vol. 1).**

⁸ ISA 240 (Redrafted), paragraph 13; [ISA 500 (Redrafted), paragraph [to be inserted]]; and [ISA 505 (Revised and Redrafted), “External Confirmations,” paragraphs [to be inserted]]. See AU section 326 paragraph .11 and AU section 330, **The Confirmation Process, paragraph .38 (AICPA, Professional Standards, vol. 1).**

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procedures used to meet the requirements of the ISAs and gather audit evidence.	procedures used to meet the requirements of the ISAs GAAS and gather audit evidence.	
<ul style="list-style-type: none"> Evaluating whether sufficient appropriate audit evidence has been obtained, and whether more needs to be done to achieve the objectives of the ISAs and thereby, the overall objectives of the auditor. 	<ul style="list-style-type: none"> Eevaluating whether sufficient appropriate audit evidence has been obtained, and whether more needs to be done to achieve the objectives of the ISAs GAAS and thereby, the overall objectives of the auditor. 	
<ul style="list-style-type: none"> The evaluation of management's judgments in applying the entity's applicable financial reporting framework. 	<ul style="list-style-type: none"> The evaluation of management's judgments in applying the entity's applicable financial reporting framework. 	
<ul style="list-style-type: none"> The drawing of conclusions based on the audit evidence obtained, for example, assessing the reasonableness of the estimates made by management in preparing the financial statements. 	<ul style="list-style-type: none"> The drawing of conclusions based on the audit evidence obtained, for example, assessing the reasonableness of the estimates made by management in preparing the financial statements. 	
A24. The distinguishing feature of the professional judgment expected of an auditor is that it is exercised by an auditor whose training, knowledge and experience have assisted in developing the necessary competencies to achieve reasonable judgments.	A27. The distinguishing feature of the professional judgment expected of an auditor is that it is such judgment is exercised based on competencies developed through by an auditor whose relevant training, knowledge, and experience have assisted in developing the necessary competencies to achieve reasonable judgments.	Language changed to make the SAS easier to read and apply.
A25. The exercise of professional judgment in any particular case is based on the facts and circumstances that are known by the auditor. Consultation on difficult or contentious matters during the course of the audit,	A28. The exercise of professional judgment in any particular case is based on the facts and circumstances that are known by the auditor. Consultation on difficult or contentious matters during the course of the audit,	

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both within the engagement team and between the engagement team and others at the appropriate level within or outside the firm, such as that required by ISA 220 (Redrafted) ¹³ , assist the auditor in making informed and reasonable judgments.	both within the engagement team and between the engagement team and others at the appropriate level within or outside the firm, such as that <i>those</i> required by <i>paragraph 72 of SQCS No. 7</i> ISA 220 (Redrafted) ¹³ , assist the auditor in making informed and reasonable judgments.	
A26. Professional judgment can be evaluated based on whether the judgment reached reflects a competent application of auditing and accounting principles and is appropriate in the light of, and consistent with, the facts and circumstances that were known to the auditor up to the date of the auditor's report.	A29. Professional judgment can be evaluated based on whether the judgment reached reflects a competent application of auditing <i>standards</i> and accounting principles and is appropriate in the —light of, and consistent with, the facts and circumstances that were known to the auditor up to the date of the auditor's report.	
A27. Professional judgment needs to be exercised throughout the audit. It also needs to be appropriately documented. In this regard, the auditor is required to prepare audit documentation sufficient to enable an experienced auditor, having no previous connection with the audit, to understand the significant professional judgments made in reaching conclusions on significant matters arising during the audit. ¹⁴ Professional judgment is not to be used as the justification for decisions that are not otherwise supported by the facts and circumstances	A30. Professional judgment needs to be exercised throughout the audit. It also needs to be appropriately documented. In this regard, the auditor is required to prepare audit documentation sufficient to enable an experienced auditor, having no previous connection with the audit, to understand the significant professional judgments made in reaching conclusions on significant matters arising during the audit. ⁹ Professional judgment is not to be used as the justification for decisions that are not otherwise supported by the facts and circumstances	

¹³ ISA 220 (Redrafted), paragraph [to be inserted].

~~¹³ ISA 220 (Redrafted), paragraph [to be inserted].~~

¹⁴ ISA 230 (Redrafted), paragraph 8.

⁹ ~~ISA 230 (Redrafted), paragraph 8.~~ See AU section 339, Audit Documentation, paragraph .10 (AICPA, Professional Standards, vol. 1).

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of the engagement or sufficient appropriate audit evidence.	of the engagement or by sufficient appropriate audit evidence.	
Sufficient Appropriate Audit Evidence and Audit Risk (Ref: Para. 17)	Sufficient Appropriate Audit Evidence and Audit Risk (Ref: P para. 17)	
<i>Sufficiency and Appropriateness of Audit Evidence</i>	<i>Sufficiency and Appropriateness of Audit Evidence</i>	
A28. Audit evidence is necessary to support the auditor’s opinion and report. It is cumulative in nature and is primarily obtained from audit procedures performed during the course of the audit. It may, however, also include information obtained from other sources such as previous audits (provided the auditor has determined whether changes have occurred since the previous audit that may affect its relevance to the current audit ¹⁵) or a firm’s quality control procedures for client acceptance and continuance. In addition to other sources inside and outside the entity, the entity’s accounting records are an important source of audit evidence. Also, information that may be used as audit evidence may have been prepared by an expert employed or engaged by the entity. Audit evidence comprises both information that supports and corroborates management’s assertions, and any information that contradicts such assertions. In addition, in some cases, the absence of information (for example, management’s refusal to provide a requested	A31. Audit evidence is necessary to support the auditor’s opinion and report. It is cumulative in nature and is primarily obtained from audit procedures performed during the course of the audit. It may, however, also include information obtained from other sources such as previous audits (provided the auditor has determined whether changes have occurred since the previous audit that may affect its relevance to the current audit ¹⁰) or a firm’s quality control procedures for client acceptance and continuance. In addition to other sources inside and outside the entity, the entity’s accounting records are an important source of audit evidence. Also, information that may be used as audit evidence may have been prepared by an expert a specialist employed or engaged by the entity. Audit evidence comprises both information that supports and corroborates management’s assertions, and any information that contradicts such assertions. In addition, in some cases, the absence of information (for example, management’s	

¹⁵ ISA 315 (Redrafted), “Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment,” paragraph 9.

¹⁰ ~~ISA 315 (Redrafted), “Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment,” paragraph 9.~~ **See AU section 314, Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement, paragraph .11 (AICPA, Professional Standards, vol. 1).**

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representation) is used by the auditor, and therefore, also constitutes audit evidence. Most of the auditor's work in forming the auditor's opinion consists of obtaining and evaluating audit evidence.	refusal to provide a requested representation) is used by the auditor, and, therefore, also constitutes audit evidence. Most of the auditor's work in forming the auditor's opinion consists of obtaining and evaluating audit evidence.	
A29. The sufficiency and appropriateness of audit evidence are interrelated. Sufficiency is the measure of the quantity of audit evidence. The quantity of audit evidence needed is affected by the auditor's assessment of the risks of misstatement (the higher the assessed risks, the more audit evidence is likely to be required) and also by the quality of such audit evidence (the higher the quality, the less may be required). Obtaining more audit evidence, however, may not compensate for its poor quality.	A32. The sufficiency and appropriateness of audit evidence are interrelated. Sufficiency is the measure of the quantity of audit evidence. The quantity of audit evidence needed is affected by the auditor's assessment of the risks of misstatement (the higher the assessed risks, the more audit evidence is likely to be required) and also by the quality of such audit evidence (the higher the quality, the less may be required). Obtaining more audit evidence, however, may not compensate for its poor quality.	
A30. Appropriateness is the measure of the quality of audit evidence; that is, its relevance and its reliability in providing support for the conclusions on which the auditor's opinion is based. The reliability of evidence is influenced by its source and by its nature, and is dependent on the individual circumstances under which it is obtained.	A33. Appropriateness is the measure of the quality of audit evidence; that is, its relevance and its reliability in providing support for the conclusions on which the auditor's opinion is based. The reliability of evidence is influenced by its source and by its nature, and is dependent on the individual circumstances under which it is obtained.	
A31. Whether sufficient appropriate audit evidence has been obtained to reduce audit risk to an acceptably low level, and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion, is a matter of professional judgment. ISA 500 (Redrafted) and other relevant ISAs establish additional requirements	A34. Whether sufficient appropriate audit evidence has been obtained to reduce audit risk to an acceptably low level, and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion, is a matter of professional judgment. ISA 500 (Redrafted) AU section 326, Audit Evidence (AICPA, Professional	

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and provide further guidance applicable throughout the audit regarding the auditor's considerations in obtaining sufficient appropriate audit evidence.	Standards, vol. 1), and other relevant ISAs <i>AU sections</i> establish additional requirements and provide further guidance applicable throughout the audit regarding the auditor's considerations in obtaining sufficient appropriate audit evidence.	
<i>Audit Risk</i>	<i>Audit Risk</i>	
A32. Audit risk is a function of the risks of material misstatement and detection risk. The assessment of risks is based on audit procedures to obtain information necessary for that purpose and evidence obtained throughout the audit. The assessment of risks is a matter of professional judgment, rather than a matter capable of precise measurement.	A35. Audit risk is a function of the risks of material misstatement and detection risk. The assessment of risks is based on audit procedures to obtain information necessary for that purpose and evidence obtained throughout the audit. The assessment of risks is a matter of professional judgment, rather than a matter capable of precise measurement.	
A33. For purposes of the ISAs, audit risk does not include the risk that the auditor might express an opinion that the financial statements are materially misstated when they are not. This risk is ordinarily insignificant. Further, audit risk is a technical term related to the process of auditing; it does not refer to the auditor's business risks such as loss from litigation, adverse publicity, or other events arising in connection with the audit of financial statements.	A36. For purposes of GAAS—the ISAs , audit risk does not include the risk that the auditor might express an opinion that the financial statements are materially misstated when they are not. This risk is ordinarily insignificant. Further, audit risk is a technical term related to the process of auditing; it does not refer to the auditor's business risks such as loss from litigation, adverse publicity, or other events arising in connection with the audit of financial statements.	
Risks of Material Misstatement	Risks of Material Misstatement	
A34. The risks of material misstatement may exist at two levels:	A37. The risks of material misstatement may exist at two levels:	
<ul style="list-style-type: none"> The overall financial statement level; and 	<ul style="list-style-type: none"> The overall financial statement level; and 	

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<ul style="list-style-type: none"> The assertion level for classes of transactions, account balances, and disclosures. 	<ul style="list-style-type: none"> The assertion level for classes of transactions, account balances, and disclosures- 	
<p>A35. Risks of material misstatement at the overall financial statement level refer to risks of material misstatement that relate pervasively to the financial statements as a whole and potentially affect many assertions.</p>	<p>A38. Risks of material misstatement at the overall financial statement level refer to risks of material misstatement that relate pervasively to the financial statements as a whole and potentially affect many assertions.</p>	
<p>A36. Risks of material misstatement at the assertion level are assessed in order to determine the nature, timing, and extent of further audit procedures necessary to obtain sufficient appropriate audit evidence. This evidence enables the auditor to express an opinion on the financial statements at an acceptably low level of audit risk. Auditors use various approaches to accomplish the objective of assessing the risks of material misstatement. For example, the auditor may make use of a model that expresses the general relationship of the components of audit risk in mathematical terms to arrive at an acceptable level of detection risk. Some auditors find such a model to be useful when planning audit procedures.</p>	<p>A39. Risks of material misstatement at the assertion level are assessed in order to determine the nature, timing, and extent of further audit procedures necessary to obtain sufficient appropriate audit evidence. This evidence enables the auditor to express an opinion on the financial statements at an acceptably low level of audit risk. Auditors use various approaches to accomplish the objective of assessing the risks of material misstatement. For example, the auditor may make use of a model that expresses the general relationship of the components of audit risk in mathematical terms to arrive at an acceptable level of detection risk. Some auditors find such a model to be useful when planning audit procedures.</p>	
<p>A37. The risks of material misstatement at the assertion level consist of two components: inherent risk and control risk. Inherent risk and control risk are the entity's risks; they exist independently of the audit of the financial statements.</p>	<p>A40. The risks of material misstatement at the assertion level consist of two components: inherent risk and control risk. Inherent risk and control risk are the entity's risks; they exist independently of the audit of the financial statements.</p>	

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ISA 200 (REVISED AND REDRAFTED)	PROPOSED SAS	Comments
<p>A38. Inherent risk is higher for some assertions and related classes of transactions, account balances, and disclosures than for others. For example, it may be higher for complex calculations or for accounts consisting of amounts derived from accounting estimates that are subject to significant estimation uncertainty. External circumstances giving rise to business risks may also influence inherent risk. For example, technological developments might make a particular product obsolete, thereby causing inventory to be more susceptible to overstatement. Factors in the entity and its environment that relate to several or all of the classes of transactions, account balances, or disclosures may also influence the inherent risk related to a specific assertion. Such factors may include, for example, a lack of sufficient working capital to continue operations or a declining industry characterized by a large number of business failures.</p>	<p>A41. Inherent risk is higher for some assertions and related classes of transactions, account balances, and disclosures than for others. For example, it may be higher for complex calculations or for accounts consisting of amounts derived from accounting estimates that are subject to significant estimation uncertainty. External circumstances giving rise to business risks may also influence inherent risk. For example, technological developments might make a particular product obsolete, thereby causing inventory to be more susceptible to overstatement. Factors in the entity and its environment that relate to several or all of the classes of transactions, account balances, or disclosures may also influence the inherent risk related to a specific assertion. Such factors may include, for example, a lack of sufficient working capital to continue operations or a declining industry characterized by a large number of business failures.</p>	
<p>A39. Control risk is a function of the effectiveness of the design, implementation and maintenance of internal control by management to address identified risks that threaten the achievement of the entity’s objectives relevant to preparation of the entity’s financial statements. However, internal control, no matter how well designed and operated, can only reduce, but not eliminate, risks of material misstatement in the financial statements, because of the inherent limitations of internal control. These include, for example, the possibility of</p>	<p>A42. Control risk is a function of the effectiveness of the design, implementation and maintenance of internal control by management to address identified risks that threaten the achievement of the entity’s objectives relevant to preparation of the entity’s financial statements. However, internal control, no matter how well designed and operated, can only reduce, but not eliminate, risks of material misstatement in the financial statements, because of the inherent limitations of internal control. These include, for example, the possibility of</p>	

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human errors or mistakes, or of controls being circumvented by collusion or inappropriate management override. Accordingly, some control risk will always exist. The ISAs provide the conditions under which the auditor is required to, or may choose to, test the operating effectiveness of controls in determining the nature, timing and extent of substantive procedures to be performed. ¹⁶	human errors or mistakes, or of controls being circumvented by collusion or inappropriate management override. Accordingly, some control risk will always exist. The ISAs provide GAAS provides the conditions under which the auditor is required to, or may choose to, test the operating effectiveness of controls in determining the nature, timing and extent of substantive procedures to be performed. ¹¹	
A40. The ISAs do not ordinarily refer to inherent risk and control risk separately, but rather to a combined assessment of the “risks of material misstatement.” However, the auditor may make separate or combined assessments of inherent and control risk depending on preferred audit techniques or methodologies and practical considerations. The assessment of the risks of material misstatement may be expressed in quantitative terms, such as in percentages, or in non-quantitative terms. In any case, the need for the auditor to make appropriate risk assessments is more important than the different approaches by which they may be made.	A43. The ISAs do GAAS does not ordinarily refer to inherent risk and control risk separately, but rather to a combined assessment of the “ risks of material misstatement. ” However, the auditor may make separate or combined assessments of inherent and control risk depending on preferred audit techniques or methodologies and practical considerations. The assessment of the risks of material misstatement may be expressed in quantitative terms, such as in percentages; or in non-quantitative terms. In any case, the need for the auditor to make appropriate risk assessments is more important than the different approaches by which they may be made.	
A41. ISA 315 (Redrafted) establishes requirements and provides guidance on identifying and assessing the risks of material misstatement at the financial statement and assertion levels.	A44. ISA 315 (Redrafted) AU section 314, Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement (AICPA, Professional Standards, vol. I), establishes	

¹⁶ ISA 330 (Redrafted), “The Auditor’s Responses to Assessed Risks,” paragraphs 7-17.

¹¹ ~~ISA 330 (Redrafted), “The Auditor’s Responses to Assessed Risks,” paragraphs 7-17.~~ **See AU section 318, Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained, paragraphs .23–.27 (AICPA, Professional Standards, vol. I).**

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	requirements and provides guidance on identifying and assessing the risks of material misstatement at the financial statement and assertion levels.	
Detection Risk	Detection Risk	
A42. For a given level of audit risk, the acceptable level of detection risk bears an inverse relationship to the assessed risks of material misstatement at the assertion level. For example, the greater the risks of material misstatement the auditor believes exists, the less the detection risk that can be accepted and, accordingly, the more persuasive the audit evidence required by the auditor.	A45. For a given level of audit risk, the acceptable level of detection risk bears an inverse relationship to the assessed risks of material misstatement at the assertion level. For example, the greater the risks of material misstatement the auditor believes exists, the less the detection risk that can be accepted and, accordingly, the more persuasive the audit evidence required by the auditor.	
A43. Detection risk relates to the nature, timing, and extent of the auditor's procedures that are determined by the auditor to reduce audit risk to an acceptably low level. It is therefore a function of the effectiveness of an audit procedure and of its application by the auditor. Matters such as:	A46. Detection risk relates to the nature, timing, and extent of the auditor's procedures that are determined by the auditor to reduce audit risk to an acceptably low level. It is therefore a function of the effectiveness of an audit procedure and of its application by the auditor. Matters such as:	
<ul style="list-style-type: none"> adequate planning; 	<ul style="list-style-type: none"> Aadequate planning, 	
<ul style="list-style-type: none"> proper assignment of personnel to the engagement team; 	<ul style="list-style-type: none"> Pproper assignment of personnel to the engagement team, 	
<ul style="list-style-type: none"> the application of professional skepticism; and 	<ul style="list-style-type: none"> The application of professional skepticism, and 	
<ul style="list-style-type: none"> supervision and review of the audit work performed, 	<ul style="list-style-type: none"> Supervision and review of the audit work performed, 	

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assist to enhance the effectiveness of an audit procedure and of its application and reduce the possibility that an auditor might select an inappropriate audit procedure, misapply an appropriate audit procedure, or misinterpret the audit results.	assist to enhance the effectiveness of an audit procedure and of its application and reduce the possibility that an auditor might select an inappropriate audit procedure, misapply an appropriate audit procedure, or misinterpret the audit results.	
A44. ISA 300 (Redrafted) ¹⁷ and ISA 330 (Redrafted) establish requirements and provide guidance on planning an audit of financial statements and the auditor's responses to assessed risks. Detection risk, however, can only be reduced, not eliminated, because of the inherent limitations of an audit. Accordingly, some detection risk will always exist.	A47. ISA 300 (Redrafted)¹⁷ and ISA 330 (Redrafted)¹⁷ AU section 311, Planning and Supervision, and AU section 318, Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained (AICPA, Professional Standards, vol. 1), establish requirements and provide guidance on planning an audit of financial statements and the auditor's responses to assessed risks. Detection risk, however, can only be reduced, not eliminated, because of the inherent limitations of an audit. Accordingly, some detection risk will always exist.	
<i>Inherent Limitations of an Audit</i>	<i>Inherent Limitations of an Audit</i>	
A45. The auditor is not expected to, and cannot, reduce audit risk to zero and cannot therefore obtain absolute assurance that the financial statements are free from material misstatement due to fraud or error. This is because there are inherent limitations of an audit, which result in most of the audit evidence on which the auditor draws conclusions and bases the auditor's opinion being	A48. The auditor is not expected to, and cannot, reduce audit risk to zero and cannot therefore obtain absolute assurance that the financial statements are free from material misstatement due to fraud or error. This is because there are inherent limitations of an audit, which result in most of the audit evidence on which the auditor draws conclusions and bases the auditor's opinion being	

¹⁷ ISA 300 (Redrafted), "Planning an Audit of Financial Statements."

¹⁷ ~~ISA 300 (Redrafted), "Planning an Audit of Financial Statements."~~

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persuasive rather than conclusive. The inherent limitations of an audit arise from:	persuasive rather than conclusive. The principal inherent limitations of an audit arise from:	
<ul style="list-style-type: none"> The nature of financial reporting; 	<ul style="list-style-type: none"> Thethe nature of financial reporting; 	
<ul style="list-style-type: none"> The nature of audit procedures; and 	<ul style="list-style-type: none"> Thethe nature of audit procedures; and 	
<ul style="list-style-type: none"> The need for the audit to be conducted within a reasonable period of time and at a reasonable cost. 	<ul style="list-style-type: none"> Thethe need for the audit to be conducted within a reasonable period of time and at a reasonable cost. 	
The Nature of Financial Reporting	The Nature of Financial Reporting	
<p>A46. The preparation of financial statements involves judgment by management in applying the requirements of the entity's applicable financial reporting framework to the facts and circumstances of the entity. In addition, many financial statement items involve subjective decisions or assessments or a degree of uncertainty, and there may be a range of acceptable interpretations or judgments that may be made. Consequently, some financial statement items are subject to an inherent level of variability which cannot be eliminated by the application of additional auditing procedures. For example, this is often the case with respect to certain accounting estimates. Nevertheless, the ISAs require the auditor to give specific consideration to whether accounting estimates are reasonable in the context of the applicable financial reporting framework and to related disclosures, and to the qualitative aspects of the entity's</p>	<p>A49. The preparation of financial statements involves judgment by management in applying the requirements of the entity's applicable financial reporting framework to the facts and circumstances of the entity. In addition, many financial statement items involve subjective decisions or assessments or a degree of uncertainty, and there may be a range of acceptable interpretations or judgments that may be made. Consequently, some financial statement items are subject to an inherent level of variability which that cannot be eliminated by the application of additional auditing procedures. For example, this is often the case with respect to certain accounting estimates. Nevertheless, the ISAs require GAAS requires the auditor to give specific consideration to whether accounting estimates are reasonable in the context of the applicable financial reporting framework and to related disclosures, and to the qualitative aspects</p>	

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accounting practices, including indicators of possible bias in management’s judgments. ¹⁸	of the entity’s accounting practices, including indicators of possible bias in management’s judgments. ¹²	
The Nature of Audit Procedures	The Nature of Audit Procedures	
A47. There are practical and legal limitations on the auditor’s ability to obtain audit evidence. For example:	A50. There are practical and legal limitations on the auditor’s ability to obtain audit evidence. For example:	
<ul style="list-style-type: none"> There is the possibility that management or others may not provide, intentionally or unintentionally, the complete information that is relevant to the preparation and presentation of the financial statements or that has been requested by the auditor. Accordingly, the auditor cannot be certain of the completeness of information, even though the auditor has performed audit procedures to obtain assurance that all relevant information has been obtained. 	<ul style="list-style-type: none"> There is the possibility that management or others may not provide, intentionally or unintentionally, the complete information that is relevant to the preparation and presentation of the financial statements or that has been requested by the auditor. Accordingly, the auditor cannot be certain of the completeness of information, even though the auditor has performed audit procedures to obtain assurance that all relevant information has been obtained. 	
<ul style="list-style-type: none"> Fraud may involve sophisticated and carefully organized schemes designed to conceal it. Therefore, audit procedures used to gather audit evidence may be ineffective for detecting an intentional misstatement that involves, for example, collusion to falsify 	<ul style="list-style-type: none"> Fraud may involve sophisticated and carefully organized schemes designed to conceal it. Therefore, audit procedures used to gather audit evidence may be ineffective for detecting an intentional misstatement that involves, for example, collusion to falsify 	

¹⁸ ISA 540 (Revised and Redrafted), “Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures,” and [ISA 700, (Redrafted), “Forming an Opinion and Reporting on Financial Statements,” paragraph [to be inserted].]

¹² ~~ISA 540 (Revised and Redrafted), “Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures,” and [ISA 700, (Redrafted), “Forming an Opinion and Reporting on Financial Statements,” paragraph [to be inserted].]~~ **See AU section 328, Auditing Fair Value Measurements and Disclosures; AU section 342, Auditing Accounting Estimates; and AU section 410, Adherence to Generally Accepted Accounting Principles (AICPA, Professional Standards, vol. 1)**

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documentation which may cause the auditor to believe that audit evidence is valid when it is not. The auditor is neither trained as nor expected to be an expert in the authentication of documents.	documentation which that may cause the auditor to believe that audit evidence is valid when it is not. The auditor is neither trained as nor expected to be an expert in the authentication of documents.	
<ul style="list-style-type: none"> An audit is not an official investigation into alleged wrongdoing. Accordingly, the auditor is not given specific legal powers, such as the power of search, which may be necessary for such an investigation. 	<ul style="list-style-type: none"> An audit is not an official investigation into alleged wrongdoing. Accordingly, the auditor is not given specific legal powers, such as the power of search, which may be necessary for such an investigation. 	
Timeliness of Financial Reporting and the Balance between Benefit and Cost	Timeliness of Financial Reporting and the Balance b B etween Benefit and Cost	

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ISA 200 (REVISED AND REDRAFTED)	PROPOSED SAS	Comments
<p>A48. The matter of difficulty, time, or cost involved is not in itself a valid basis for the auditor to omit an audit procedure for which there is no alternative or to be satisfied with audit evidence that is less than persuasive. Appropriate planning assists in making sufficient time and resources available for the conduct of the audit. Notwithstanding this, the relevance of information, and thereby its value, tends to diminish over time, and there is a balance to be struck between the reliability of information and its cost. This is recognized in certain financial reporting frameworks (see, for example, the IASB’s “Framework for the Preparation and Presentation of Financial Statements”). Therefore, there is an expectation by users of financial statements that the auditor will form an opinion on the financial statements within a reasonable period of time and at a reasonable cost, recognizing that it is impracticable to address all information that may exist or to pursue every matter exhaustively on the assumption that information is in error or fraudulent until proved otherwise.</p>	<p>A51. The matter of difficulty, time, or cost involved is not in itself a valid basis for the auditor to omit an audit procedure for which there is no alternative or to be satisfied with audit evidence that is less than persuasive. Appropriate planning assists in making sufficient time and resources available for the conduct of the audit. Notwithstanding this, the relevance of information, and thereby its value, tends to diminish over time, and there is a balance to be struck between the reliability of information and its cost. This is recognized in certain financial reporting frameworks. (see, for example, the <i>Financial Accounting Standard Board’s Statements of Financial Accounting Concepts</i> IASB’s “Framework for the Preparation and Presentation of Financial Statements”). Therefore, there is an expectation by users of financial statements that the auditor will form an opinion on the financial statements within a reasonable period of time and at a reasonable cost, recognizing that it is impracticable to address all information that may exist or to pursue every matter exhaustively on the assumption that information is in error or fraudulent until proved otherwise.</p>	
<p>A49. Consequently, it is necessary for the auditor to:</p>	<p>A52. Consequently, it is necessary for the auditor to:</p>	
<ul style="list-style-type: none"> • Plan the audit so that it will be performed in an effective manner; • Direct audit effort to areas most expected to contain risks of material misstatement, whether due to fraud or error, with 	<ul style="list-style-type: none"> • Pplan the audit so that it will be performed in an effective manner; • Ddirect audit effort to areas most expected to contain risks of material misstatement, whether due to fraud or error, with 	

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<p>correspondingly less effort directed at other areas; and</p> <ul style="list-style-type: none"> • Use testing and other means of examining populations for misstatements. 	<p>correspondingly less effort directed at other areas; and</p> <ul style="list-style-type: none"> • Use testing and other means of examining populations for misstatements. 	
A50. In light of the approaches described in paragraph A49, the ISAs contain requirements for the planning and performance of the audit and require the auditor, among other things, to:	A53. In light of the approaches described in paragraph A52, the ISAs contain GAAS contains requirements for the planning and performance of the audit and requires the auditor, among other things, to:	
<ul style="list-style-type: none"> • Have a basis for the identification and assessment of risks of material misstatement at the financial statement and assertion levels by performing risk assessment procedures and related activities;¹⁹ and 	<ul style="list-style-type: none"> • Hhave a basis for the identification and assessment of risks of material misstatement at the financial statement and assertion levels by performing risk assessment procedures and related activities;¹³ and 	
<ul style="list-style-type: none"> • Use testing, and other means of examining populations in a manner that provides a reasonable basis for the auditor to draw conclusions about the population.²⁰ 	<ul style="list-style-type: none"> • Uuse testing and other means of examining populations in a manner that provides a reasonable basis for the auditor to draw conclusions about the population.¹⁴ 	
Other Matters that Affect the Inherent Limitations of an Audit	Other Matters t That Affect the Inherent Limitations of an Audit	
A51. In the case of certain assertions or subject matters, the potential effects of the inherent limitations on the	A54. In the case of certain assertions or subject matters, the potential effects of the inherent limitations	

¹⁹ ISA 315 (Redrafted), paragraphs 5-10.

¹³ ~~ISA 315 (Redrafted), paragraphs 5-10. See AU section 314.~~

²⁰ ISA 330 (Redrafted); [ISA 500 (Redrafted)]; [Proposed] ISA 520 (Redrafted), “Analytical Procedures”; and ISA 530 (Redrafted), “Audit Sampling.”

¹⁴ ~~ISA 330 (Redrafted); [ISA 500 (Redrafted)]; [Proposed] ISA 520 (Redrafted), “Analytical Procedures”; and ISA 530 (Redrafted), “Audit Sampling.” See AU section 318; AU section 326; AU section 329, Analytical Procedures; and AU section 350, Audit Sampling (AICPA, Professional Standards, vol. 1).~~

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auditor's ability to detect material misstatements are particularly significant. Such assertions or subject matters include:	on the auditor's ability to detect material misstatements are particularly significant. Such assertions or subject matters include:	
<ul style="list-style-type: none"> Fraud, particularly fraud involving senior management or collusion. See ISA 240 (Redrafted) for further discussion. 	<ul style="list-style-type: none"> Ffraud, particularly fraud involving senior management or collusion. See ISA 240 (Redrafted)AU section 316, Consideration of Fraud in a Financial Statement Audit (AICPA, Professional Standards, vol. 1), for further discussion. 	
<ul style="list-style-type: none"> The existence and completeness of related party relationships and transactions. See ISA 550 (Revised and Redrafted) ²¹ for further discussion. 	<ul style="list-style-type: none"> Tthe existence and completeness of related party relationships and transactions. See [proposed] ISA 550 (Revised and Redrafted)²¹ AU section 334, Related Parties (AICPA, Professional Standards, vol. 1), for further discussion. 	
<ul style="list-style-type: none"> The occurrence of non-compliance with laws and regulations. See ISA 250 (Redrafted) ²² for further discussion. 	<ul style="list-style-type: none"> Tthe occurrence of non-compliance with laws and regulations. See [proposed] ISA 250 (Redrafted)AU section 317, Illegal Acts by Clients (AICPA, Professional Standards, vol. 1), for further discussion.²² 	
<ul style="list-style-type: none"> Future events or conditions that may cause an 	<ul style="list-style-type: none"> Ffuture events or conditions that may cause 	

²¹ ISA 550 (Revised and Redrafted), "Related Parties."

²⁴ ~~ISA 550 (Revised and Redrafted), "Related Parties."~~

²² ISA 250 (Redrafted), "Consideration of Laws and Regulations in an Audit of Financial Statements."

²² ~~ISA 250 (Redrafted), "Consideration of Laws and Regulations in an Audit of Financial Statements."~~

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entity to cease to continue as a going concern. See ISA 570 (Redrafted) ²³ for further discussion.	an entity to cease to continue as a going concern. See ISA 570 (Redrafted) AU section 341, The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern (AICPA, Professional Standards, vol. 1) , for further discussion. ²³	
Relevant ISAs identify specific audit procedures to assist in mitigating the effect of the inherent limitations.	Relevant ISAs AU sections identify specific audit procedures to assist in mitigating lessening the effect of the inherent limitations.	
A52. Because of the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with ISAs. Accordingly, the subsequent discovery of a material misstatement of the financial statements resulting from fraud or error does not by itself indicate a failure to conduct an audit in accordance with ISAs. However, the inherent limitations of an audit are not a justification for the auditor to be satisfied with less-than-persuasive audit evidence. Whether the auditor has performed an audit in accordance with ISAs is determined by the audit procedures performed in the circumstances, the sufficiency and appropriateness of the audit evidence obtained as a result thereof and the suitability of the auditor's report based on an evaluation of that evidence	A55. Because of the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with ISAs GAAS . Accordingly, the subsequent discovery of a material misstatement of the financial statements resulting from fraud or error does not by itself indicate a failure to conduct an audit in accordance with ISAs GAAS . However, the inherent limitations of an audit are not a justification for the auditor to be satisfied with less-than-persuasive audit evidence. Whether the auditor has performed an audit in accordance with ISAs GAAS is determined by the audit procedures performed in the circumstances, the sufficiency and appropriateness of the audit evidence obtained as a result thereof and the suitability of the auditor's report based on an evaluation of that evidence	

²³ ISA 570 (Redrafted), "Going Concern."

²³ ~~ISA 570 (Redrafted), "Going Concern."~~

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in light of the overall objectives of the auditor.	in light of the overall objectives of the auditor.	
Conduct of an Audit in Accordance with ISAs	Conduct of an Audit in Accordance wWith ISAs GAAS	
<i>Nature of the ISAs</i> (Ref: Para. 18)	<i>Nature of the ISAs GAAS</i> (Ref: P para. 18)	
	A56. Rule 202, Compliance With Standards (AICPA, Professional Standards, vol. 2, ET sec. 202), of the AICPA Code of Professional Conduct requires an AICPA member who performs an audit to comply with standards promulgated by the Auditing Standards Board (ASB). The ASB develops and issues standards in the form of SASs through a process that includes deliberation in meetings open to the public, public exposure of proposed SASs, and a formal vote. The SASs are codified in AU sections in volume 1 of AICPA Professional Standards.	
A53. The ISAs, taken together, provide the standards for the auditor's work in fulfilling the overall objectives of the auditor. The ISAs deal with the general responsibilities of the auditor, as well as the auditor's further considerations relevant to the application of those responsibilities to specific topics.	A57. The ISAs, taken together, provide GAAS provides the standards for the auditor's work in fulfilling the overall objectives of the auditor. The ISAs deal with GAAS addresses the general responsibilities of the auditor, as well as the auditor's further considerations relevant to the application of those responsibilities to specific topics.	
A54. The scope, effective date and any specific limitation of the applicability of a specific ISA is made clear in the ISA. Unless otherwise stated in the ISA, the auditor is permitted to apply an ISA before the effective date specified therein.	A58. The scope, effective date, and any specific limitation of the applicability of a specific ISA AU section is made clear in the ISAAU section . Unless otherwise stated in the ISAAU section , the auditor is permitted to apply an ISA AU section before the	

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<p>A55. In performing an audit, the auditor may be required to comply with legal or regulatory requirements in addition to the ISAs. The ISAs do not override laws and regulations that govern an audit of financial statements. In the event that those laws and regulations differ from the ISAs, an audit conducted only in accordance with laws and regulations will not automatically comply with ISAs.</p>	<p>effective date specified therein.</p> <p>A59. In performing an audit <i>certain engagements</i>, the auditor <i>also</i> may be required to comply with other professional, legal or regulatory <i>auditing</i> requirements in addition to the ISAs <i>GAAS, such as Government Auditing Standards issued by the comptroller general of the United States</i>. The ISAs do <i>GAAS does</i> not override laws and regulations that govern an audit of financial statements. In the event that those laws and regulations differ from the ISAs <i>GAAS</i>, an audit conducted only in accordance with laws and regulations will not automatically <i>necessarily</i> comply with ISAs <i>GAAS</i>.</p>	<p>Added application material specific to governmental entities in United States.</p>
<p>A56. The auditor may also conduct the audit in accordance with both ISAs and auditing standards of a specific jurisdiction or country. In such cases, in addition to complying with each of the ISAs relevant to the audit, it may be necessary for the auditor to perform additional audit procedures in order to comply with the relevant standards of that jurisdiction or country.</p>	<p>A60. The auditor may also conduct the audit in accordance with both ISAs and auditing standards of a specific jurisdiction or country <i>generally accepted in the United States and</i></p> <ul style="list-style-type: none"> • <i>International Standards on Auditing (ISAs), or</i> • <i>auditing standards of a specific jurisdiction or country.</i> <p>In such cases, in addition to complying with each of the ISAs <i>AU sections</i> relevant to the audit, it may be necessary for the auditor to perform additional audit procedures in order to comply with the relevant standards of that jurisdiction or country.</p>	
<p>Considerations Specific to Audits in the Public Sector</p>	<p>Considerations Specific to Audits <i>of Governmental</i></p>	

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	<i>Entities in the Public Sector</i>	
A57. The ISAs are relevant to engagements in the public sector. The public sector auditor’s responsibilities, however, may be affected by the audit mandate, or by obligations on public sector entities arising from legislation, regulation, ministerial directives, government policy requirements, or resolutions of the legislature, which may encompass a broader scope than an audit of financial statements in accordance with the ISAs. These additional responsibilities are not dealt with in the ISAs. They may be dealt with in the pronouncements of the International Organization of Supreme Audit Institutions or national standard-setters, or in guidance developed by government audit agencies.	A61. The ISAs are GAAS is relevant to <i>financial statement audit and attestation</i> engagements in the public sector of governmental entities . The public sector auditor’s responsibilities, however, may be affected by the audit mandate, or by obligations on public sector governmental entities arising from legislation, regulation, ministerial directives , government policy requirements, or resolutions of the legislature, which may encompass a broader scope than an audit of financial statements in accordance with the ISAs GAAS . These additional responsibilities are not dealt with in the ISAs GAAS . <i>Auditors are required to adhere to Government Auditing Standards when auditing U.S. government entities, and when required by law, regulation, contract or grant agreement. The appendix to Government Auditing Standards includes a listing of some of the laws, regulations and guidelines that require use of Government Auditing Standards.</i> They may be dealt with in the pronouncements of the International Organization of Supreme Audit Institutions or national standards setters, or in guidance developed by government audit agencies	Added application material specific to governmental entities in the United States.
<i>Contents of the ISAs</i> (Ref: Para. 19)	<i>Contents of ISAs</i> GAAS (Ref: P para. 19)	
A58. In addition to objectives and requirements (requirements are expressed in the ISAs using “shall”), an ISA contains related guidance in the form of application and other explanatory material. It may also	A62. In addition to objectives and requirements (expressed in the ISAs using “shall”) , an ISA AU section contains related guidance in the form of application and other explanatory material. It may also contain	

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contain introductory material that provides context relevant to a proper understanding of the ISA, and definitions. The entire text of an ISA, therefore, is relevant to an understanding of the objectives stated in an ISA and the proper application of the requirements of an ISA.	introductory material that provides context relevant to a proper understanding of the ISAAU section , and definitions. The entire text of an ISA <i>an AU section</i> , therefore, is relevant to an understanding of the objectives stated in an ISA <i>AU section</i> and the proper application of the requirements of an ISAAU section .	
A59. Where necessary, the application and other explanatory material provides further explanation of the requirements of an ISA and guidance for carrying them out. In particular, it may:	A63. Where necessary, the application and other explanatory material provides further explanation of the requirements of an ISA <i>AU section</i> and guidance for carrying them out. In particular, it may:	
<ul style="list-style-type: none"> • Explain more precisely what a requirement means or is intended to cover. 	<ul style="list-style-type: none"> • Eexplain more precisely what a requirement means or is intended to cover. 	
<ul style="list-style-type: none"> • Include examples of procedures that may be appropriate in the circumstances. 	<ul style="list-style-type: none"> • Iinclude examples of procedures that may be appropriate in the circumstances. 	
While such guidance does not in itself impose a requirement, it is relevant to the proper application of the requirements of an ISA. The application and other explanatory material may also provide background information on matters addressed in an ISA.	While Although such guidance does not in itself impose a requirement, it is relevant to the proper application of the requirements of an ISAAU section . <i>These procedures or actions require the auditor's attention and understanding; how and whether the auditor carries out such procedures or actions in the engagement depends on the exercise of professional judgment in the circumstances consistent with the objective of the AU section. The words may, might, and could are used to describe these actions and procedures.</i> The application and other explanatory material may also provide background information on matters addressed in an ISAAU section .	Added application matter consistent with existing AU section 120 paragraph .07.

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A60. Appendices form part of the application and other explanatory material. The purpose and intended use of an appendix are explained in the body of the related ISA or within the title and introduction of the appendix itself.	A64. Appendixes form part of the application and other explanatory material. The purpose and intended use of an appendix are explained in the body of the related ISA-AU section or within the title and introduction of the appendix itself.	
A61. Introductory material may include, as needed, such matters as explanation of:	A65. Introductory material may include, as needed, such matters as explanation of:	
<ul style="list-style-type: none"> • The purpose and scope of the ISA, including how the ISA relates to other ISAs. 	<ul style="list-style-type: none"> • The purpose and scope of the ISAAU section, including how the ISA-AU section relates to other ISAs-AU sections. 	
<ul style="list-style-type: none"> • The subject matter of the ISA. 	<ul style="list-style-type: none"> • The subject matter of the ISAAU section. 	
<ul style="list-style-type: none"> • The respective responsibilities of the auditor and others in relation to the subject matter of the ISA. 	<ul style="list-style-type: none"> • The respective responsibilities of the auditor and others in relation to the subject matter of the ISA AU section. 	
<ul style="list-style-type: none"> • The context in which the ISA is set. 	<ul style="list-style-type: none"> • The context in which the ISA- AU section is set. 	
A62. An ISA may include, in a separate section under the heading ‘Definitions’, a description of the meanings attributed to certain terms for purposes of the ISAs. These are provided to assist in the consistent application and interpretation of the ISAs, and are not intended to override definitions that may be established for other purposes, whether in law, regulation or otherwise. Unless otherwise indicated, those terms will carry the same meanings throughout the ISAs. The Glossary of Terms relating to International Standards issued by the	A66. An ISA-AU section may include, in a separate section under the heading “Definitions”, a description of the meanings attributed to certain terms for purposes of the ISAs GAAS . These are provided to assist in the consistent application and interpretation of the ISAs GAAS , and are not intended to override definitions that may be established for other purposes, whether in law, regulation or otherwise. Unless otherwise indicated, those terms will carry the same meanings throughout the ISAs GAAS . The Glossary of Terms relating to	Highlighted text deleted as ASB has not yet issued a glossary.

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International Auditing and Assurance Standards Board in the <i>Handbook of International Auditing, Assurance, and Ethics Pronouncements</i> published by IFAC contains a complete listing of terms defined in the ISAs. It also includes descriptions of other terms found in ISAs to assist in common and consistent interpretation and translation.	International Standards issued by the International Auditing and Assurance Standards Board in the <i>Handbook of International Auditing, Assurance, and Ethics Pronouncements</i> published by IFAC contains a complete listing of terms defined in the ISAs. It also includes descriptions of other terms found in ISAs to assist in common and consistent interpretation and translation.	
A63. When appropriate, additional considerations specific to audits of smaller entities and public sector entities are included within the application and other explanatory material of an I. These additional considerations assist in the application of the requirements of the ISAs in the audit of such entities. They do not, however, limit or reduce the responsibility of the auditor to apply and comply with the requirements of the ISAs.	A67. When appropriate, additional considerations specific to audits of smaller, <i>less complex</i> entities and public sector governmental entities are included within the application and other explanatory material of an ISAAU section . These additional considerations assist in the application of the requirements of the ISAs GAAS in the audit of such entities. They do not, however, limit or reduce the responsibility of the auditor to apply and comply with the requirements of the ISAs GAAS .	
Considerations Specific to Smaller Entities	Considerations Specific to Smaller, <i>Less Complex</i> Entities	
A64. For purposes of specifying additional considerations to audits of smaller entities, a “smaller entity” refers to an entity which typically possesses qualitative characteristics such as:	A68. For purposes of specifying additional considerations to audits of smaller, <i>less complex</i> entities, a “ <i>smaller, less complex entity</i> ” refers to an entity which that typically possesses qualitative characteristics such as:	
(a) Concentration of ownership and management in a small number of individuals (often a single individual – either a natural person or another enterprise that owns the	(a) a. C concentration of ownership and management in a small number of individuals (often a single individual—either a natural person or another enterprise	

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entity provided the owner exhibits the relevant qualitative characteristics); and	that owns the entity provided the owner exhibits the relevant qualitative characteristics); and	
(b) One or more of the following:	(b) b. One or more of the following:	
(i) Straight forward or uncomplicated transactions;	(i) (1) Straight forward or uncomplicated transactions;	
(ii) Simple record-keeping;	(ii) (2) Simple record-keeping;	
(iii) Few lines of business and few products within business lines;	(iii) (3) Few lines of business and few products within business lines;	
(iv) Few internal controls:	(iv) (4) Few internal controls:	
(v) Few levels of management with responsibility for a broad range of controls; or	(v) (5) Few levels of management with responsibility for a broad range of controls; or	
(vi) Few personnel, many having a wide range of duties.	(vi) (6) Few personnel, many having a wide range of duties.	
These qualitative characteristics are not exhaustive, they are not exclusive to smaller entities, and smaller entities do not necessarily display all of these characteristics.	These qualitative characteristics are not exhaustive, they are not exclusive to smaller, less complex entities, and smaller, less complex entities do not necessarily display all of these characteristics.	
A65. The considerations specific to smaller entities included in the ISAs have been developed primarily with unlisted entities in mind. Some of the considerations, however, may be helpful in audits of smaller listed entities.	The considerations specific to smaller entities included in the ISAs have been developed primarily with unlisted entities in mind. Some of the considerations, however, may be helpful in audits of smaller listed entities.	SASs do not apply to listed entities.
A66. The ISAs refer to the proprietor of a smaller entity who is involved in running the entity on a day-to-day	A69. The ISAs refer GAAS refers to the proprietor of a smaller entity who is involved in running the entity on	

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basis as the “owner-manager.”	a day-to-day basis as the “ owner-manager .”	
<i>Objectives Stated in Individual ISAs</i> (Ref: Para. 21)	<i>Objectives Stated in Individual ISAs AU sSections</i> (Ref: P para. 21)	
A67. Each ISA contains one or more objectives which provide a link between the requirements and the overall objectives of the auditor. The objectives in individual ISAs serve to focus the auditor on the desired outcome of the ISA, while being specific enough to assist the auditor in:	A70. Each ISA AU section contains one or more objectives which that provide a link between the requirements and the overall objectives of the auditor. The objectives in individual ISAs AU sections serve to focus the auditor on the desired outcome of the ISA AU section , while being specific enough to assist the auditor in:	
<ul style="list-style-type: none"> Understanding what needs to be accomplished and, where necessary, the appropriate means of doing so; and 	<ul style="list-style-type: none"> Understanding what needs to be accomplished and, where necessary, the appropriate means of doing so; and 	
<ul style="list-style-type: none"> Deciding whether more needs to be done to achieve them in the particular circumstances of the audit. 	<ul style="list-style-type: none"> Deciding whether more needs to be done to achieve them the objectives in the particular circumstances of the audit. 	
A68. Objectives are to be understood in the context of the overall objectives of the auditor stated in paragraph 11 of this ISA. As with the overall objectives of the auditor, the ability to achieve an individual objective is equally subject to the inherent limitations of an audit.	A71. Objectives are to be understood in the context of the overall objectives of the auditor stated in paragraph 11 of this ISAS SAS . As with the overall objectives of the auditor, the ability to achieve an individual objective is equally subject to the inherent limitations of an audit.	
A69. In using the objectives, the auditor is required to have regard to the interrelationships among the ISAs. This is because, as indicated in paragraph A53, the ISAs deal in some cases with general responsibilities and in others with the application of those responsibilities to	A72. In using the objectives, the auditor is required to have regard to consider the interrelationships among the ISAs AU sections . This is because, as indicated in paragraph A57, the ISAs AU sections deal in some cases with general responsibilities and in others with the	

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<p>specific topics. For example, this ISA requires the auditor to adopt an attitude of professional skepticism; this is necessary in all aspects of planning and performing an audit but is not repeated as a requirement of each ISA. At a more detailed level, ISA 315 (Redrafted) and ISA 330 (Redrafted) contain, among other things, objectives and requirements that deal with the auditor's responsibilities to identify and assess the risks of material misstatement and to design and perform further audit procedures to respond to those assessed risks, respectively; these objectives and requirements apply throughout the audit. An ISA dealing with specific aspects of the audit (for example, ISA 540 (Revised and Redrafted)) may expand on how the objectives and requirements of such ISAs as ISA 315 (Redrafted) and ISA 330 (Redrafted) are to be applied in relation to the subject of the ISA but does not repeat them. Thus, in achieving the objective stated in ISA 540 (Revised and Redrafted), the auditor has regard to the objectives and requirements of other relevant ISAs.</p>	<p>application of those responsibilities to specific topics. For example, this ISA SAS requires the auditor to adopt an attitude of professional skepticism; this is necessary in all aspects of planning and performing an audit but is not repeated as a requirement of each ISA AU section. At a more detailed level, ISA 315 (Redrafted) AU sections 314 and 318 contain, among other things, objectives and requirements that deal with the auditor's responsibilities to identify and assess the risks of material misstatement and to design and perform further audit procedures to respond to those assessed risks, respectively; these objectives and requirements apply throughout the audit. An ISA An AU section dealing with specific aspects of the audit (for example, AU section 342, Auditing Accounting Estimates [AICPA, Professional Standards, vol. 1]), ISA 540 (Revised and Redrafted) may expand on how the objectives and requirements of such ISAs AU sections such as 315 (Redrafted) and 330 (Redrafted) are to be applied in relation to the subject of the ISA that AU section, but AU section 342 does not repeat them those objectives and requirements. Thus, in achieving the objective stated in ISA 540 (Revised and Redrafted) AU section 342, the auditor has regard to considers the objectives and requirements of other relevant ISAs AU sections.</p>	

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Use of Objectives to Determine Need for Additional Audit Procedures (Ref: Para. 21(a))	Use of Objectives to Determine Need for Additional Audit Procedures (Ref: Para. 21(a))	
<p>A70. The requirements of the ISAs are designed to enable the auditor to achieve the objectives specified in the ISAs, and thereby the overall objectives of the auditor. The proper application of the requirements of the ISAs by the auditor is therefore expected to provide a sufficient basis for the auditor's achievement of the objectives. However, because the circumstances of audit engagements vary widely and all such circumstances cannot be anticipated in the ISAs, the auditor is responsible for determining the audit procedures necessary to fulfill the requirements of the ISAs and to achieve the objectives. In the circumstances of an engagement, there may be particular matters that require the auditor to perform audit procedures in addition to those required by the ISAs to meet the objectives specified in the ISAs.</p>	<p>A73. The requirements of the ISAs GAAS are designed to enable the auditor to achieve the objectives specified in the ISAs GAAS, and thereby the overall objectives of the auditor. The proper application of the requirements of the ISAs GAAS by the auditor is therefore expected to provide a sufficient basis for the auditor's achievement of the objectives. However, because the circumstances of audit engagements vary widely and all such circumstances cannot be anticipated in the ISAs GAAS, the auditor is responsible for determining the audit procedures necessary to fulfill the requirements of the ISAs GAAS and to achieve the objectives. In the circumstances of an engagement, there may be particular matters that require the auditor to perform audit procedures in addition to those required by the ISAs GAAS to meet the objectives specified in the ISAs GAAS.</p>	
Use of Objectives to Evaluate Whether Sufficient Appropriate Audit Evidence Has Been Obtained (Ref: Para. 21(b))	Use of Objectives to Evaluate Whether Sufficient Appropriate Audit Evidence Has Been Obtained (Ref: Para. 21(b))	
<p>A71. The auditor is required to use the objectives to evaluate whether sufficient appropriate audit evidence has been obtained in the context of the overall objectives of the auditor. If as a result the auditor concludes that the audit evidence is not sufficient and appropriate, then the</p>	<p>A74. The auditor is required to use the objectives to evaluate whether sufficient appropriate audit evidence has been obtained in the context of the overall objectives of the auditor. If as a result the auditor concludes that the audit evidence is not sufficient and appropriate, then the</p>	

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auditor may follow one or more of the following approaches to meeting the requirement of paragraph 21(b):	auditor may follow one or more of the following approaches to meeting the requirement of paragraph 21 (b) :	
<ul style="list-style-type: none"> Evaluate whether further relevant audit evidence has been, or will be, obtained as a result of complying with other ISAs; 	<ul style="list-style-type: none"> Evaluate whether further relevant audit evidence has been, or will be, obtained as a result of complying with other ISAs AU sections; 	
<ul style="list-style-type: none"> Extend the work performed in applying one or more requirements; or 	<ul style="list-style-type: none"> Extend the work performed in applying one or more requirements; or 	
<ul style="list-style-type: none"> Perform other procedures judged by the auditor to be necessary in the circumstances. 	<ul style="list-style-type: none"> Perform other procedures judged by the auditor to be necessary in the circumstances; 	
Where none of the above is expected to be practical or possible in the circumstances, the auditor will not be able to obtain sufficient appropriate audit evidence and is required by the ISAs to determine the effect on the auditor's report or on the auditor's ability to complete the engagement.	Where none of the above preceding is expected to be practical or possible in the circumstances, the auditor will not be able to obtain sufficient appropriate audit evidence and is required by the ISAs GAAS to determine the effect on the auditor's report or on the auditor's ability to complete the engagement.	
<i>Complying with Relevant Requirements</i>	<i>Complying with Relevant Requirements</i>	
Relevant Requirements (Ref: Para. 22)	Relevant Requirements (Ref: P para. 22)	
A72. In some cases, an ISA (and therefore all of its requirements) may not be relevant in the circumstances. For example, if an entity does not have an internal audit function, nothing in ISA 610 (Redrafted) ²⁴ is relevant.	A75. In some cases, an ISA AU section (and therefore all of its requirements) may not be relevant in the circumstances. For example, if an entity does not have an internal audit function, nothing in ISA 510 (Redrafted)	

²⁴ ISA 610 (Redrafted), "Using the Work of Internal Auditors."

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	AU section 322, The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements (AICPA, Professional Standards, vol. 1), is relevant. ²⁴	
A73. Within a relevant ISA, there may be conditional requirements. Such a requirement is relevant when the circumstances envisioned in the requirement apply and the condition exists. In general, the conditionality of a requirement will either be explicit or implicit, for example:	A76. Within a relevant ISA AU section , there may be conditional requirements. Such a requirement is relevant when the circumstances envisioned in the requirement apply and the condition exists. In general, the conditionality of a requirement will either be explicit or implicit, for example:	
<ul style="list-style-type: none"> The requirement to modify the auditor's opinion if there is a limitation of scope²⁵ represents an explicit conditional requirement. 	<ul style="list-style-type: none"> The requirement to modify the auditor's opinion if there is a limitation of scope¹⁵ represents an explicit conditional requirement. 	
<ul style="list-style-type: none"> The requirement to communicate significant deficiencies in internal control identified during the audit to those charged with governance²⁶, which depends on the existence of such identified significant deficiencies; and the requirement to obtain sufficient appropriate audit evidence regarding the presentation and disclosure of segment 	<ul style="list-style-type: none"> The requirement to communicate significant deficiencies and material weaknesses in internal control identified during the audit to management and those charged with governance,¹⁶ which depends on the existence and identification of such identified significant deficiencies; and the requirement to obtain sufficient appropriate audit evidence 	Second example not relevant to nonissuers in the United States.

²⁴ ~~ISA 610 (Redrafted), "Using the Work of Internal Auditors."~~

²⁵ ISA 705 (Revised and Redrafted), "Modifications to the Opinion in the Independent Auditor's Report," paragraph 13.

¹⁵ ~~ISA 705 (Revised and Redrafted), "Modifications to the Opinion in the Independent Auditor's Report," paragraph 13. See AU section 508, Reports on Audited Financial Statements, paragraph .20 (AICPA, Professional Standards, vol. 1).~~

²⁶ [Proposed] ISA 265, "Communicating Deficiencies in Internal Control," paragraph [10].

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information in accordance with the applicable financial reporting framework ²⁷ , which depends on that framework requiring or permitting such disclosure, represent implicit conditional requirements.	regarding the presentation and disclosure of segment information in accordance with the applicable financial reporting framework,²⁷ which depends on that framework requiring or permitting such disclosure, represents <i>an</i> implicit conditional requirements.	
	<i>Presumptively Mandatory Requirements (Ref: par. 23)</i>	
	<i>A77. If an AU section provides that a procedure or action is one that the auditor should consider, consideration of the procedure or action is presumptively required. Whether the auditor performs the procedure or action is based upon the outcome of the auditor's consideration and the auditor's professional judgment.</i>	Added application material consistent with AU section 120 paragraph .04.
Departure from a Requirement (Ref: Para.23)	Departure from a Requirement (Ref: P para. 24)	
A74. ISA 230 (Redrafted) establishes documentation requirements in those exceptional circumstances where the auditor departs from a relevant requirement. ²⁸ The ISAs do not call for compliance with a requirement that is not relevant in the circumstances of the audit.	A78. ISA 230 (Redrafted) <i>AU section 339 paragraph .22</i> establishes documentation requirements in those exceptional circumstances where the auditor departs from a relevant requirement.²⁴ The ISAs do <i>GAAS does</i> not call for compliance with a requirement that is not relevant in the circumstances of the audit.	

²⁷ [Proposed] ISA 501 (Redrafted), "Audit Evidence Regarding Specific Financial Statement Account Balances and Disclosures," paragraph [14].

¹⁶ ~~Proposed] ISA 265, "Communicating Deficiencies in Internal Control," paragraph [10].~~ **See AU section 325, Communicating Internal Control Related Matters Identified in an Audit, paragraph .20 (AICPA, Professional Standards, vol. 1).**

²⁷ ~~[Proposed] ISA 501 (Redrafted), "Audit Evidence Regarding Specific Financial Statement Account Balances and Disclosures," paragraph [14].~~

²⁸ ISA 230 (Redrafted), paragraph 12.

²⁴ ~~ISA 230 (Redrafted), paragraph 12.~~

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	<i>Interpretive Publications</i> (Ref: par. 25)	
	<i>A79. Interpretive publications are not auditing standards. Interpretive publications are recommendations on the application of GAAS in specific circumstances, including engagements for entities in specialized industries. An interpretive publication is issued under the authority of the ASB after all ASB members have been provided an opportunity to consider and comment on whether the proposed interpretive publication is consistent with GAAS. Auditing interpretations of GAAS are included in the AU sections in volume 1 of Professional Standards. AICPA Audit and Accounting Guides and auditing Statements of Position are listed in AU appendix D.</i>	Added application material consistent with AU section 150 paragraph .05.
	<i>Other Auditing Publications</i> (Ref: par. 26)	
	<i>A80. Other auditing publications have no authoritative status; however, they may help the auditor understand and apply GAAS. The auditor is not expected to be aware of the full body of other auditing publications.</i> <i>A81. Although the auditor determines the relevance of these publications in accordance with paragraph 26, the auditor may presume that other auditing publications published by the AICPA that have been reviewed by the AICPA Audit and Attest Standards staff are appropriate. These other auditing publications are</i>	Added application material consistent with AU section 150 paragraphs .07–.08.

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	<i>listed in AU appendix F of volume 1 of Professional Standards.</i>	
	A82. <i>In determining whether an other auditing publication that has not been reviewed by the AICPA Audit and Attest Standards staff is appropriate, the auditor may wish to consider the degree to which the publication is recognized as being helpful in understanding and applying GAAS and the degree to which the issuer or author is recognized as an authority in auditing matters.</i>	Added application material consistent with AU section 150 paragraph .08.
<i>Failure to Achieve an Objective</i> (Ref: Para. 24)	<i>Failure to Achieve an Objective</i> (Ref: P para. 27)	
A75. Whether an objective has been achieved is a matter for the auditor's professional judgment. That judgment takes account of the results of audit procedures performed in complying with the requirements of the ISAs, and the auditor's evaluation of whether sufficient appropriate audit evidence has been obtained and whether more needs to be done in the particular circumstances of the audit to achieve the objectives stated in the ISAs. Accordingly, circumstances that may give rise to a failure to achieve an objective include those that:	A83. Whether an objective has been achieved is a matter for the auditor's professional judgment. That judgment takes account of the results of audit procedures performed in complying with the requirements of the ISAs GAAS, and the auditor's evaluation of whether sufficient appropriate audit evidence has been obtained and whether more needs to be done in the particular circumstances of the audit to achieve the objectives stated in the ISAs GAAS. Accordingly, circumstances that may give rise to a failure to achieve an objective include those that:	
<ul style="list-style-type: none"> Prevent the auditor from complying with the relevant requirements of an ISA. 	<ul style="list-style-type: none"> Pprevent the auditor from complying with the relevant requirements of an ISAAU section. 	
<ul style="list-style-type: none"> Result in its not being practicable or possible for the auditor to carry out the 	<ul style="list-style-type: none"> Result in its not being practicable or possible for the auditor to carry out the 	

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additional audit procedures or obtain further audit evidence as determined necessary from the use of the objectives in accordance with paragraph 21, for example due to a limitation in the available audit evidence.	additional audit procedures or obtain further audit evidence as determined necessary from the use of the objectives in accordance with paragraph 21; for example due to a limitation in the available audit evidence.	
<p>A76. Audit documentation that meets the requirements of ISA 230 (Redrafted) and the specific documentation requirements of other relevant ISAs provides evidence of the auditor's basis for a conclusion about the achievement of the overall objectives of the auditor. While it is unnecessary for the auditor to document separately (as in a checklist, for example) that individual objectives have been achieved, the documentation of a failure to achieve an objective assists the auditor's evaluation of whether such a failure has prevented the auditor from achieving the overall objectives of the auditor.</p>	<p>A84. Audit documentation that meets the requirements of ISA 230 (Redrafted) AU section 339 and the specific documentation requirements of other relevant ISAs AU sections provides evidence of the auditor's basis for a conclusion about the achievement of the overall objectives of the auditor. While Although it is unnecessary for the auditor to document separately (as in a checklist, for example) that individual objectives have been achieved, the documentation of a failure to achieve an objective assists the auditor's evaluation of whether such a failure has prevented the auditor from achieving the overall objectives of the auditor.</p>	